



Annual Report **30 June 2016**



Those who fly us, love us!



Cayman Airways Annual Report

30 June 2016

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Chairman of the Board

*Chairman of the Board of Directors for
Cayman Airways Limited, Philip Rankin*

As I reach seven years on the Board of Cayman Airways and four as its Chairman, it is amazing to consider what has been accomplished. When I joined Cayman Airways, the 2008/9 fiscal year had just closed with a loss of US\$7.3 million and the company was many millions of dollars in debt. To that point, the airline had been borrowing money almost annually to offset the massive losses that kept occurring. To say the situation was dire was perhaps an understatement. Immediate action was necessary to simply stabilize the airline and stop the downward spiral.

The course of action taken in those first few years and over the years since then has righted the airline and its situation is now vastly different. The performance achieved over the last two years did not occur by accident. Indeed, it has only been through the cumulative effort over the last seven years that the airline has been able to deliver its best performance. The "Airlift Framework", an outline of the company's operations that was developed early on, has helped to guide and direct the recovery process. The framework allowed accountability to be established and set in motion the steps needed to succeed.

I am again this year pleased to share that the 2016 financials show a net operating surplus of US\$3.8 million, the largest in the airline's history.

During 2015/16, a fleet modernization exercise was completed and the resulting plan was ultimately approved by the Government. This plan will see a 737-800 enter the Cayman Airways fleet by late 2016 and by 2020 the company will operate a fleet of brand new 737-8Max aircraft, having retired or returned its other jet aircraft. As productive as the last seven years have been, I firmly believe that there are even brighter days ahead for Cayman Airways.

Each year, Cayman Airways contributes some US\$200 million to the local economy. This contribution is crucial and we will ensure that Cayman Airways remains a powerful strategic tool for the economic growth of these Cayman Islands for many years to come.

Sincerely,

Philip Rankin



President and CEO

*President and Chief Executive Officer
of Cayman Airways Limited, Fabian Whorms*

Cayman Airways celebrated its 48th anniversary in August of 2016.

For 48 years, this little airline has helped to shape the development of the Cayman Islands. When other carriers had no interest in our islands, it was Cayman Airways that connected Cayman to the world. When hurricanes would come with devastating consequences, it was Cayman Airways that would fly to the last minute possible and then see the recovery effort through to completion. For 48 years, no matter the situation, Cayman Airways has stood ready to take on the lead role in ensuring the success of these Cayman Islands.

Cayman Airways has also faced struggles and challenges during its 48 years. Years of constantly jumping from strategy to strategy and struggling to meet the often changing demands on the airline had taken its toll. But the story was not over for Cayman Airways – far from it.

In 2013, the company established a five-year rolling business plan that had a documented and clear path for the airline. The plan documented the need to right-size elements of our fleet, introduce new software solutions to improve controls and efficiencies, optimize schedules for connections in Grand Cayman and larger matters, like the fleet modernization process and a relentless focus on driving economic value for the Cayman Islands. Ultimately, the plan laid out the path to improved performance and gave our team the framework necessary to triumph.

Two back-to-back years without any net operating deficits are the result of a tremendous effort. Every single member of the Cayman Airways team can be proud of this accomplishment as it has been earned. The years ahead may be uncertain, but we are guided by our plan and together we will strive for continued success.

Sincerely,

Fabian Whorms

Airline Leadership

Board of Directors

Philip Rankin	Chairman of the Board (2012-current) <i>Director (2009-2012)</i>
Norman Bodden	Vice-Chairman of the Board (2013-current)
Jeffrey DaCosta	Director (2013-current)
Christopher Kirkconnell	Director (2013-current)
Danielle Lookloy	Director (2013-current)
Lucille Seymour	Director (2013-2017)
Wilbur Thompson	Director (2009-current)
James Tibbetts	Director (2013-current)
Robert Watler	Director (2015-current)
Stran Bodden	Ex-officio (2011-current) – Chief Officer, Ministry of District Administration, Tourism and Transportation
Rosa Harris	Ex-officio (2013-current) – Director of Tourism, Cayman Islands
Kenneth Jefferson	Ex-officio (2013-current)– Financial Secretary
Fabian Whorms	Secretary – President & CEO

Executive Team

Fabian Whorms	President and Chief Executive Officer
Paul Tibbetts	Executive Vice President and Chief Financial Officer
Ivan Forbes	Vice President Airport Operations
Wayne Miller	Vice President Maintenance & Engineering
Dave Scott	Vice President Flight Operations
Steve Scott	Director Safety Management
Christopher McTaggart	Director Special Programs/Advisor on Aviation Security
Wendy Evans Williams	Director Human Resources
Johan Bjuroe	General Manager Express Operations

Cayman Airways Limited Overview

In 1955, Costa Rican airline LACSA started a subsidiary company, "Cayman Brac Airways," operating domestic passenger air service between Grand Cayman and Cayman Brac using Beechcraft 18 (C-45) and Douglas DC-3 aircraft. By the early sixties, a flag stop to Little Cayman had been added, following the construction of a small grass airfield on the island. Later, Cayman Brac Airways' would include limited service between Cayman Brac and Montego Bay, Jamaica – its sole international flight.

On August 7, 1968, some thirteen years after the start of Cayman Brac Airways, the Cayman Islands Government purchased 51% of the airline from LACSA. Following this purchase, the airline was renamed to Cayman Airways Limited ("Cayman Airways" or the "Company" or the "Airline"). The focus of Cayman Airways would now be to not only ensure reliable domestic service, but to look beyond the confines of the Cayman Islands and strategically connect the islands to the world.

Initially, the fledgling Cayman Airways continued with the use of DC-3 aircraft as had Cayman Brac Airways, offering the same service with flights between Grand Cayman and the sister islands. Things were set to change rapidly however. That same year, a British Aircraft Corporation BAC 1-11 jet aircraft (wet leased from LACSA) was added to the fleet and Cayman Airways' international service to Kingston, Jamaica began, following granting of route rights. In 1972, service began to Miami and, several years later, service



to Houston was added. Many more routes would be introduced in the years to come, including Atlanta, Chicago and New York.

In 1977, Cayman Islands Government purchased LACSA's remaining shares resulting in the Airline becoming 100% Cayman owned and being designated as the National Flag Carrier of the Cayman Islands.

Today, Cayman Airways is a corporation registered in the Cayman Islands. The Cayman Islands Government still maintains its 100% ownership of the Airline and is its sole shareholder. As such, the Airline is legally considered a Government Owned Company ("GOC") under the law and therefore, in addition to standard corporate and business laws, the Airline is also subject to additional legislation applying only to GOC's, including the Public Management and Finance Law and the Freedom of Information Law. While the impact of this additional legislation is generally not onerous, it creates a situation where the Airline must comply with additional requirements as compared with its competition.

Cayman Airways holds Air Operators Certificates issued by the Civil Aviation Authority of the Cayman Islands ("CAACI") and licenses from the Cayman Islands Air Transport Licensing Authority, authorizing the Airline to provide passenger and cargo services domestically and internationally.

With its primary hub at Owen Roberts International Airport ("GCM") in Grand Cayman, Cayman Airways provides passenger service to twelve destinations with an annual passenger volume of over 427 thousand. The Company also provides cargo services at many of its locations, transporting over 1,600 tons of cargo each year.



As a GOC, Cayman Airways is used in a key role for the tourism and economic development strategies of the country. The Airline often operates under an atypical business model, ensuring that the interests of the Cayman Islands are always given priority even over the Airline's own profit producing ability. Under the larger national strategy, there are ten specific roles for the Airline to fulfil which include:

10 Key Roles of Cayman Airways

1. A lever for Strategic Tourism and Economic Development

Cayman Airways is tasked with driving the Cayman Islands' economic development and growing tourism. To accomplish this, the Airline has a close relationship with the Cayman Islands Department of Tourism ("CIDOT") and other strategic partners. Activities include the joint promotion of the destination in existing and in potential new gateways along with tweaking schedule frequency and convenience. Cayman Airways allows for a complete Caymanian brand experience (Caymankind) for visitors from start to finish.

2. Provide an essential inter-island air-bridge

The Cayman Islands are comprised of three islands and without road connections, a reliable air link is a necessity.

3. Guarantee air service independent of foreign carrier priorities

Airlines are profit driven and factor in a variety of items in determining their operations. As circumstances change or new opportunities arise, foreign airlines can make decisions at any time based on their needs which can severely impact the Cayman Islands.

4. Disaster relief before and after events

In a small country there will always be a need to bring in supplies before or after disasters as well as provide a reliable means of transportation for relief workers, residents and others. This was clearly demonstrated by Cayman Airways during the period leading up to and the turmoil after hurricane Ivan in 2004

5. Tourist evacuation

As of 2015, the Cayman Islands had the dubious distinction of being #1 in the Caribbean for most affected by tropical storms and hurricanes (#4 for all cities and islands in the entire Atlantic basin), with an impact every 1.69 years on average since 1871¹. Therefore, in order to provide a worry-free experience to tourists during hurricane season (and whenever else the need arises), Cayman Airways ensures that all tourists are able to be evacuated to safer locations when necessary.

¹ <http://www.hurricanecity.com/rank.htm>

6. Ensure competitive fare structure from foreign carriers

Pricing in the airline industry is generally market driven. With foreign carriers generally operating strictly from their hub cities, there is little overlap in service and little pressure to keep prices competitive. Cayman Airways plays a strategic role in ensuring that prices are appropriate simply by the Airline's market presence.

7. Prevent foreign carrier monopolies

The transportation industry, and particularly the Caribbean, is filled with examples where foreign carriers obtain monopolies on routes and then either raise prices or dictate demands to smaller nations that have no alternative, but to comply or lose air service.

8. Provide community support from corporate citizenship

Cayman Airways supports its community in a variety of ways including charitable gifts, humanitarian assistance and sponsorship. This critical role of the Airline is an avenue for the Airline's and the Cayman Islands Government's social responsibility, along with ensuring the success of many events and organizations that would not be possible were it not for the Airline.

9. Contribute over US\$200 million annually to the Cayman economy

In 2001, the Cayman Islands Government recruited the professional services firm Deloitte to conduct a study of Cayman Airways and its impact to the Cayman Islands. In that study, and in the two updated studies since then, it was identified that Cayman Airways contributes over US\$200 million each year to the Cayman Islands economy. Cayman Airways is tasked with ensuring that it maintains this value and continues to contribute meaningfully to the Cayman economy.

10. Provide direct employment in the Cayman Islands to 370+ people.

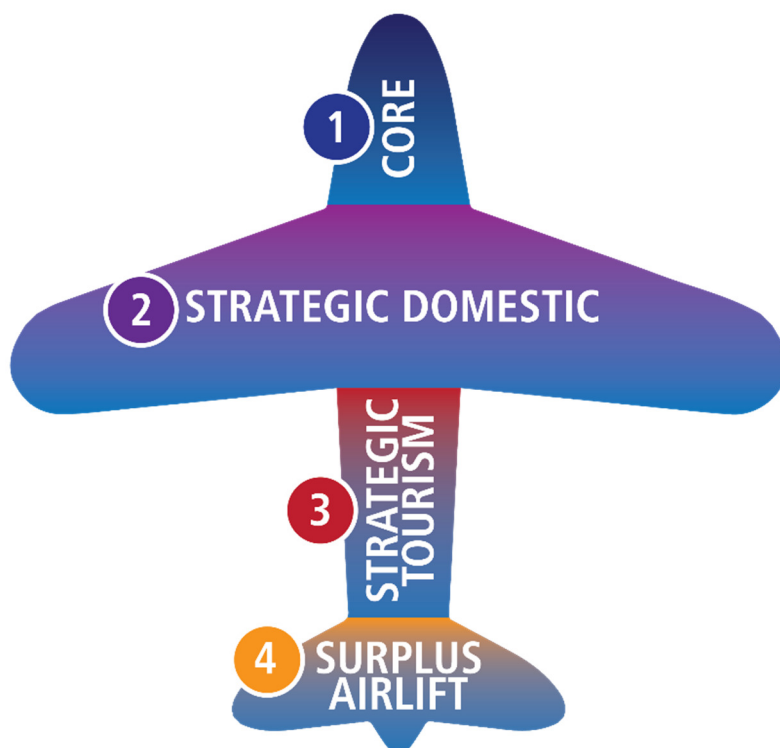
Cayman Airways is one of the largest employers in the Cayman Islands. Its employees include mechanics, marketers, customer service agents, accountants, pilots and flight attendants and range from entry-level positions through to corporate executives. The financial contribution to the local economy of a Cayman-based work force is in excess of US\$25 million and affords the local community exposure to roles that simply would not be available without the Airline.

In fiscal year 2015/16 ("FY2015/16"), the Cayman Islands Government purchased US\$20.6 million (CI\$17.3 million) worth of services from Cayman Airways. The associated deliverables related to these purchases were detailed in the FY2015/16 Purchase Agreement between Cayman Airways and the Cayman Islands Government, calling for the Airline to provide certain strategic air services as well as carry out the various duties detailed above.

The "Airlift Framework"

In 2009, the Company established an "Airlift Framework" to serve as the basis for the costing and allocation of Government purchases, as well as better defining the Airline's roles and accountability with respect to the strategic operations undertaken by the Airline for the benefit of the Cayman Islands.

This framework features significantly in the Airline's operational planning and funding models and is broken into four primary areas defined as follows:



1. Core

The Core is the business component of the Airline and is operated in a typical business manner with the aim of delivering a profit. This section is comprised of those routes and flights where the Airline has primary, or dominant, market share and has an established history of successful service in that market. Additionally, the Core includes any other profit-producing services such as Cargo operations.

2. Strategic Domestic

With the distance between each of the Cayman Islands, air service is the only practical means of connecting. To ensure that flights are delivered in such quantities and at fares determined to be appropriate to facilitate ease of movement, the Cayman Islands Government buys certain Domestic routes and flights from Cayman Airways.

At the start of each fiscal year, a Purchase Agreement is defined between Cayman Airways and the Cayman Islands Government outlining the number of flights and anticipated loads for the Strategic Domestic service. In the Purchase Agreement the Cayman Islands Government agrees to quantities and a price to pay Cayman Airways for the provision of these services.

Management and the Board of Directors have responsibility to ensure flights are operated as safely and as economically as possible while the Cayman Islands Government has

responsibility to fund amounts necessary to ensure that the quantity of flights and seats deemed necessary are provided at an appropriate fare.

3. Strategic Tourism

Under its role as a lever for Strategic Tourism and Economic Development, the Airline is used strategically to ensure that various flights are provided at fares determined to be appropriate to stimulate the market.

As with Strategic Domestic services, at the start of each fiscal year, a Purchase Agreement is defined between Cayman Airways and the Cayman Islands Government outlining the number of flights and anticipated loads for the Strategic Tourism service. In the Purchase Agreement the Cayman Islands Government agrees to quantities and a price to pay Cayman Airways for the provision of these services.

Management and the Board of Directors have responsibility to ensure flights are operated safely and as economically as possible, while the Cayman Islands Government has responsibility to fund amounts necessary to subsidize the passenger fare and to ensure that the quantity of flights and seats deemed necessary are provided.

4. Surplus Airlift

Once the previous three categories are fully serviced (without any displacement and not affecting required redundancy to maintain reliability of scheduled service), the Airline may opt to utilize any surplus capacity. This utilization takes the form of charter flights or other short term provision of service. In all instances, the surplus is expected to provide good economic return.

Fiscal Year 2015/16: Year in Review

As the Airline continued to operate in line with its rolling five year plan, the FY2015/16 was another record financial year for Cayman Airways, with the Airline achieving its largest net operating surplus in the Company's five decade history (Audited Financial Statements are included in Appendix A). The continued benefits achieved from the purchase of three of its jet aircraft during the prior year, strong passenger revenue and low fuel prices resulted in an improvement in surplus of US\$179k for FY2015/16 over the record performance recorded in Fiscal Year 2014/15 ("FY2014/15"), with the Company ultimately achieving a net income for the FY2015/16 of US\$3.8 million (FY2014/15 US\$3.6 million).

The Airline transported 427,175 passengers during FY2015/16 (FY2014/15: 423,203) comprised of 83k domestic passengers and 344k international passengers. Overcoming a slight reduction in average yield, the growth in passenger count resulted in a record revenue for the Airline of US\$59.8 million (FY2014/15: 59.2 million) and accounted for 68% of the Airline's total revenue.



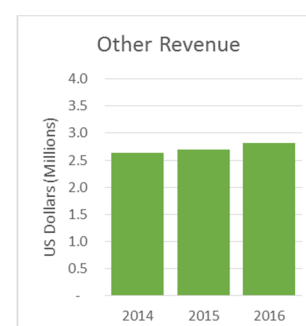
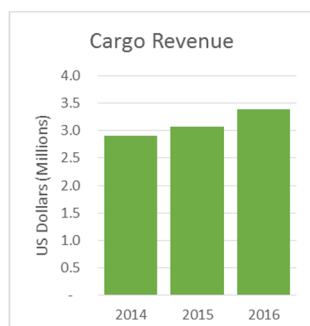
The Core and Domestic routes delivered solid growth against the prior year, while the Tourism routes declined slightly as a result of new or expanded competition in various markets. Efforts taken by the Airline along with the CIDOT saw recovery occurring in these markets by year-end.

The purchase of services from Cayman Airways by the Cayman Islands Government was reduced from US\$21.2 million in FY2014/15 to US\$20.6 million in FY2015/16. This reduction was primarily due to a slightly lower cost of services and was able to be accomplished with minimal impact to operations.



Cargo volume increased by 11% in FY2015/16 to 1.6k tons (FY2014/15: 1.5k tons). This volume growth translated into an 11% growth in revenue from US\$3.1 million in FY2014/15 to US\$3.4 million in FY2015/16.

Handling revenue continued to decline as the annualized effects of the reduction in handling customers was realized, dropping from US\$2.1 million in FY2014/15 to US\$1.8 million in FY2015/16.



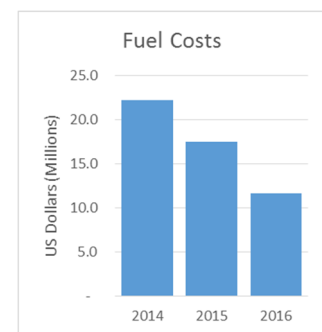
Other revenue grew slightly as the Airline saw growth in non-flight revenue sources including frequent flier partner programs and penalty fees.

During FY2015/16, the airline experienced an increase in staff costs² from US\$26.3 million in FY2014/15 to US\$29.8 million in FY2015/16. Approximately US\$1.0 million of this increase was related to the carry forward effects of a Government approved cost of living adjustment which Cayman Airways awarded to staff in July 2015. A further US\$0.5 million was incurred when a one-time gratuitous payment representing 2.2% of annual salary was paid to employees in June 2016.



The addition of 24 new staff members during the year, many related to upfront needs with the induction of the new Saab aircraft or to meet increasing regulatory requirements, served to increase costs by approximately US\$1.0 million. Heavy overtime as a result of irregular operations, a 15% increase in Health Insurance and internal promotions largely accounted for the balance of the increase.

Low oil prices for most of FY2015/16 helped to further reduce fuel expenditure from the US\$17.5 million in FY2014/15 to US\$11.6 million in FY2015/16. The Airline took a position in November 2014 not to hedge based on market indications that lower prices were expected to occur in 2015. That decision allowed Cayman Airways to fully benefit from the discounted fuel prices in FY2014/15 and again in FY2015/16. As a general approach, the Airline monitors oil price trends and will take steps necessary to optimize the cost of its fuel purchases.



Other expenses, when taken as a whole, were largely unchanged for FY2015/16. Increases in aircraft and passenger service costs (resulting from vendor price increases and irregular operations) and lease expenses were offset by decreases in information technology and professional expenses. Several one-off projects (such as required work to the hanger and technical costs associated with the Saab induction) did increase overall expenses, but were within expectations and are not part of the Airline's ongoing costs.

Overall, the Consolidated Statement of Comprehensive Income saw continued positive movement at the same time as the Company's Consolidated Statement of Financial Position also saw further improvement. At year-end, the Airline held a cash position of US\$4.3 million after having reduced its bank debt by some US\$5.1 million during the fiscal year. At the same time, the Company further reduced its payables by US\$1.7 million. At June 30, 2016, the Shareholder deficit had been reduced

² Staff Costs includes Salaries, Wages, Overtime, Health Insurance, Pension, Travel, Work Permit Fees, Training, Crew Overnight, gratuitous payments and other staff related expenses.

to US\$33.2 million, an improvement of just over US\$12.7 million from the FY2014/15 deficit of US\$45.9 million.

Saab 340B+ Introduction

In August 2015, Cayman Airways welcomed a 1998 34-seat Saab 340B+ into its fleet to replace the existing wet leased Embraer 120 service between Cayman Brac and Grand Cayman. After completing the necessary preparations and obtaining the requisite approvals, the aircraft was christened in mid-November 2015 and phased into service. In February of 2016, it assumed full-time duty with daily service between Grand Cayman and Cayman Brac. The latest model of the Saab 340 series, the B+ model features a more modern interior with larger overhead bins, comfortable leather seats and wider aisles. The active noise and vibration control system provides enhanced noise reduction to ensure that passengers are able to enjoy the roomier cabin in comfort for the quick flight between Grand Cayman and Cayman Brac.

After a thorough evaluation, the Saab 340B+ aircraft was selected as an ideal aircraft to provide the necessary capacity and frequency for service between Grand Cayman and Cayman Brac.

Cayman Brac Service to Miami

On Saturday, November 28, 2015, Cayman Airways launched a new nonstop weekly service from Cayman Brac to Miami following the expansion and renovation of the Charles Kirkconnell International Airport that brought the airport into compliance with international safety standards. Previously the only scheduled direct international flight for Cayman Brac was the once weekly flight from Miami to Cayman Brac. This outbound flight from Cayman Brac to Miami allowed passengers to have convenient access to the United States of America ("USA").

Cuba Routes

On Saturday November 28, 2015 the Airline commenced service between Cayman Brac and Holguin, Cuba. Holguin was selected due to its location, allowing Cayman Airways to reach the approximately five million people living in this region of Cuba. Unfortunately, within three months of this route starting, changes in the primary market of Havana, Cuba forced the Airline to suspend this service and instead operate the service between Cayman Brac and Havana.

Boarding Ramps

During the year, the Airline introduced new passenger boarding ramps into service for its Boeing 737-300 and Saab 340B+ aircraft. Heralded as a significant step forward for passenger convenience in the Cayman Islands, the ramps provide a comfortable inclined walkway to board or deplane aircraft, enhancing safety and comfort compared to conventional passenger stairs. The boarding ramps immediately provided a quicker, safer and more comfortable boarding and deplaning experience for everyone, but was particularly welcomed by those with limited mobility or those needing wheelchair assistance. Previously, wheelchair passengers had to be physically carried up or down the stairs by several support staff, but the board ramps allow them to board in a much more efficient, safe and dignified manner with wheelchairs being wheeled right onto the plane.

Caribbean Airline of the Year

Cayman Airways was named "Caribbean Airline of the Year" by the Caribbean Journal, the Caribbean's leading digital newspaper. The announcement was made December 1, 2015 as part of Caribbean Journal's 2015 Caribbean Travel Awards. The organization said the awards are based on the perspective of the people who travel to the Caribbean and the impact that the tourism industry has on this part of the world. Out of the host of prestigious regional airlines, including Caribbean Airlines, LIAT, Bahamas Air and Insel Air, amongst others, Cayman Airways came out top this year, owing to its personal touches such as free rum punch aboard all international jet flights, and two free checked bags, as well as its convenient and ever-extending destinations. The online publication launched the awards in 2014 to honor the hotels, destinations and people who help make Caribbean travel better.

Operations

The FY2015/16 operations of Cayman Airways saw modest changes against the prior year. While the temporary addition of service to Holguin, Cuba increased the overall number of destinations, the total number of available seats actually decreased slightly. At the same time, passenger count increased by 1% to 427,175, within 24 passengers of the record 427,199 set in 2008/9.

	2015/16	2014/15	+/- %
Aircraft	7	7	
Flights	11,745	11,504	+2.1
Destinations	13	12	+8.3
Seats (Capacity)	729,696	732,867	-0.4
Passengers	427,175	423,203	+0.9
Available Seat Miles (000s)	318,375	324,476	-1.9
Revenue Passenger Miles (000s)	187,405	191,604	-2.2
Number of Block Hours	10,751	10,727	+0.2
Miles Flown (000s)	3,007	2,917	+3.1

Cayman Airways calculates that for FY2015/16, its direct economic contribution to the Cayman Islands economy through its passenger service alone was approximately US\$113 million. A further US\$35 million was contributed through the purchase of local services and through local employee payroll. Altogether, with the most conservative economic multiplier applied, the economic impact of Cayman Airways on the Cayman Islands economy for FY2015/16 is estimated at approximately US\$202 million. This represents a 980% return on investment for the US\$20.6 million in output payments paid to Cayman Airways from the Cayman Islands Government during the fiscal year.

Aircraft and Network

Aircraft

At June 30, 2016 the Cayman Airways fleet consisted of the following:

Aircraft Type	2015/16	2014/15
Boeing 737-300 (122 seats)	4	4
DeHavilland DHC-6-300 (15 seats)	2	2
Saab 340 B+	1	0
Embraer 120 (wet lease)	0	1

In addition to its four existing Boeing 737-300 jet aircraft and two DeHavilland DHC-6-300 Twin Otter turbo-prop aircraft, the Airline added a 34-seat Saab 340B+ to its fleet for domestic service during FY2015/16, replacing the previously wet-leased 30-seat Embraer 120.

For the Airline, the entry of a Saab 340B+ represented the introduction of the first new aircraft type in over a decade. A tremendous effort was expended by Airline personnel and contracted service providers in preparing for this new aircraft type. The aircraft was delivered to the Airline in August 2015, but it would be a few months before it was able to provide scheduled service. Pilots underwent training, flight operation and maintenance program manuals were written, outside vendors had to be sourced and contracted, CAACI authorizations were obtained and in November 2015 the aircraft was finally able to begin a soft launch of service. In February 2016, at the end of the Embraer 120 wet lease, the Saab 340B+ assumed its full-time role of service between Cayman Brac and Grand Cayman.



During FY2014/15, the Airline purchased three of its Boeing 737-300 fleet. The business plan supporting this purchase called for the continued use of the aircraft by Cayman Airways for 3-5 more years, after which they would be sold or otherwise disposed of as part of a fleet replacement plan with the Airline moving to a more modern aircraft type.



The Airline's fleet replacement plan for its jet aircraft was completed in FY2015/16 and detailed the targeted retirement schedule for the existing aircraft and their replacement with the phased introduction of brand new Boeing 737-8Max aircraft. The 162-seat Boeing 737-8Max was chosen as the optimal replacement aircraft after careful consideration by the Airline, due to its significantly reduced fuel consumption (burning over 20% less fuel than classic-series aircraft), general operating efficiencies, maintenance benefits, large belly cargo capacity and the ability to carry 40 more passengers than the current fleet. To bridge the gap between the first aircraft retirement date and 737-8Max availability, the Airline will also obtain a 737-800 (the identical aircraft as a 737-8Max, but an earlier generation) under a two-year lease from December 2016.

Late in the fiscal year the Airline, working with the Government's Central Tenders Committee, sent out a Request for Proposals (RFP) to determine where it would source the new aircraft from. After significant interest from several parties who responded to the RFP, a thorough review of the bids



resulted in the awarding of both the contract for the 737-8Max and also the contract for the temporary 737-800 to Aircraft Leasing Company (ALC).

Network

Cayman Airways' scheduled service network grew slightly during FY2015/16 as the Airline tested the potential of service into Holguin, Cuba. This route, which operated on Saturdays from Cayman Brac, also coincided with the commencement of direct flights from Cayman Brac to Miami following the completion of upgrades to the Charles Kirkconnell International Airport. Unfortunately service to Holguin had to be suspended within a few months as rapid changes in the Havana market forced the Airline to pull back on its existing overnight flights resulting in insufficient capacity for Havana. To address this deficiency, the Holguin service was redirected to Havana.

The Cuban market continued to evolve as the relationship between the USA and Cuba thawed. Changes in the USA regulations late in the fiscal year allowed the Airline to sell through-travel between Cuba and the USA for the first time. This potential for increased demand, however, came on the tail of the announcement that direct scheduled service would be introduced between these two countries for the first time in decades. While demand to Cuba was strong throughout the fiscal year, at year-end forward bookings were indicating a downward trend in demand as passengers waited much closer to the day of departure to book than in previous years.

At year-end, the Airline was providing jet service to five cities in the USA – Miami, Tampa, New York, Chicago and Dallas (seasonally). Additionally, the Airline provided regional service to Havana, Montego Bay, Kingston and La Ceiba. Domestically, Cayman Airways provided two jet flights per week to Cayman Brac from Grand Cayman and the Airline's wholly owned subsidiary, Cayman Airways Express ("Express"), provided daily scheduled service between Grand Cayman and both Sister Islands on Twin Otter and service between Grand Cayman and Cayman Brac on Saab aircraft.

Airport Operations

In FY2015/16, Cayman Airways handled over 427 thousand passengers on 11.7 thousand flights at its various airport operations. In addition to its own scheduled passenger operations, the Airline also provided passenger and ground handling services for several other international carriers at its Grand Cayman hub.

A total of 525k bags were carried (an average of 1.3 bags per passenger) by the Airline.

During the year, Cayman Airways participated in the immigration pre-clearance of out-going passengers, resulting in thousands of Cayman Airways passengers no longer having to stand in line and clear immigration prior to their departure. Towards the year-end, several key changes in flight legislation have paved the way to have all Cayman Airways flights qualify for this convenient service.

During the prior fiscal year, Cayman Airways worked with the Cayman Islands Airports Authority ("CIAA") to open an in-transit processing facility. The facility allows in-transit passengers, connecting to another international destination, to avoid having to clear Cayman Islands Customs and Immigration and instead simply clear security and proceed directly to their departure gate. Despite some occasional technical issues with machinery and an extended building repair period, the facility continues to have a significant impact in easing the burden placed on the Grand Cayman airport infrastructure.

In November 2015, Cayman Airways introduced boarding ramps for both Grand Cayman and Cayman Brac. These ramps replaced the existing boarding stairs, providing passengers with a quicker, more comfortable boarding and deplaning experience for everyone, but particularly for those with limited mobility or those needing wheelchair assistance.



Cargo Operations

Cayman Airways transported 1,613 tons of cargo during FY2015/16 (up 10% from 1,454 tons in FY2014/15). With a slight reduction in passenger loads from Miami, more cargo was able to be transported in the baggage hold of scheduled passenger flights. Belly cargo, as it is known, increased by 19.2% overall with a 44.5% increase in the Miami to Grand Cayman route. Despite the increased belly cargo, the increased overall volume still resulted in the need for an additional 11 dedicated cargo aircraft flights between Miami and Grand Cayman to accommodate loads.

During the year, Cayman Airways continued to wet lease its dedicated cargo service from the IFL Group. Cayman Airways has two cargo flights scheduled each week with additional ad hoc flights added as demand dictates.



The new cargo software solution rolled out in June 2015 has greatly improved the tracking, reporting and security of the entire cargo process. With all Cayman Airways cargo gateways now online with the new software, the Airline now has complete ability to monitor the cargo activities for all stations from acceptance through to delivery. Additionally, this new system addresses findings from various audits related to deficiencies in the previous software.

Maintenance and Engineering

Two Boeing 737-300 aircraft underwent their bi-annual heavy maintenance checks ("C-Check") during the fiscal year. Aircraft VP-CKY and VP-CKW had their scheduled C-Check at Cayman Airways' approved Maintenance, Repair and Overhaul facility, Coopesa, in Costa Rica, in the fall of 2015. The C-Check for aircraft VP-CKY had no major findings and this C-Check was considered to be routine. There were findings with the C-Check for aircraft VP-CKW resulting in an extended out of service period to rectify, returning to service some six weeks later than projected.

The implementation of the new integrated Maintenance and Engineering ("M&E") computer software, Alkym Management & Control System, continued through the fiscal year FY2015/16. The implementation of this system began in 2015 and was a critical step in ensuring that Cayman Airways modernized its M&E data management, and technical processes, to improve efficiencies and quality assurance.

During the year, terms for the overhaul of the shipset of landing gears for aircraft VP-CKW and VP-CKZ were negotiated. The Airline was able to obtain more favorable terms with its supplier, resulting in significant savings over previous landing gear overhaul costs and included loaner gear which were used during the overhaul.

The Aircraft Technical Dispatch Reliability (percentage of time that an aircraft scheduled for service is able to be dispatched as planned) during the FY2015/16, were as follows:

- Jul-Sep 2015: 98.23%
- Oct-Dec 2015: 98.11%
- Jan-Mar 2016: 97.99%
- Apr-Jun 2016: 96.81%



Safety & Security

The Safety, Security & Quality Assurance Department published its goals and objectives for the calendar year in January 2016 that established a framework of benchmarks to measure performance across our safety management system. Some goals and objectives have been more challenging than others but we are well on our way to meeting the expectations set in January 2016.

The implementation of SMS Pro software in 2015 as the main platform to manage the Airline's Safety Management System is yielding positive results in respect to employee acceptance as there is increased utilization of the online system by employees from all areas of the company. The system achieves effective monitoring of safety performance to determine where improvements are needed to improve our safety management system.

An emergency procedures training event was held in February 2016 at the Marriott Hotel, Grand Cayman. The purpose was to evaluate, as well as train, employees in the use of our procedures if ever faced with a serious incident or accident. There was wide participation from executive management, managers and employees from all departments and every station within our operation. The end result was considered a success but also highlighted deficiencies and areas for improvement. To this end, a re-write of our Emergency Procedures Manual ("EPM") was commenced that will reflect our current operation and structure, and incorporate industry best practices and procedures for handling a crisis of any magnitude. We are on track to have the EPM re-write, which will be called the "Emergency Response Plan" completed before the end of 2016, to be followed by another emergency exercise in early 2017.

Air Safety Support International ("ASSI"), a subsidiary regulatory body of the UK CAA for the UK Overseas Territories, is responsible for supporting the Overseas Territories' existing authorities in the safety regulation of all aspects of civil aviation. In August 2016, ASSI completed an Aviation Security Compliance audit of Cayman Airways for conformity to Overseas Territories Aviation

Requirements ("OTAR") 178, Aviation Security. This audit covered airport security operations at GCM in Grand Cayman and the Charles Kirkconnell International Airport ("CYB") in Cayman Brac, as well as corporate and flight operations security compliance. There were no findings resulting from this audit and only one area of "potential non-compliance" which only required a minor policy change relating to how the Airline issues security permits for employees with access to aerodrome security areas.

To enhance the Airline's security capabilities, one fulltime supervisor was added to the security department in December 2015. This addition will allow us to have redundancy and support for the Manager Corporate Security and enable us to reduce the cost of outsourcing security personnel traveling on some Havana, Cuba and La Ceiba, Honduras flights.

The IATA Operational Safety Audit ("IOSA") program is an internationally recognized and accepted evaluation system designed to assess the operational management and control systems of an airline. Our IOSA Renewal Audit was successfully completed in October 2015 that resulted in the continuation of Cayman Airways registration as an IOSA compliant airline.

This audit was against enhanced and stricter standards that required several changes to policies and procedures prior to the audit. The Company was well prepared with only five findings that were quickly corrected to enable the continuation of our IOSA Registration.

The Little Cayman airport ("LYB") is an aerodrome which requires an exemption to OTAR 91.230 from the CAACI for Cayman Airways Express to conduct commercial air transport there. To facilitate the exemption, Cayman Airways Express is designated the 'Operator' of the Little Cayman airport for its flights at LYB, operated under the procedures as set out in the LYB Aerodrome Manual. A requirement of the exemption is a periodic test of the emergency procedures to ensure the LYB Aerodrome Manual is fit for purpose and all concerned are familiar with their functions. To this end, an emergency exercise was held in December 2015 at LYB simulating an incident with the DHC-6 aircraft on landing. The exercise required the participation of the Safety Department in GCM, Cayman Airways senior management and employees at LYB and CYB CAACI inspectors, CYB air traffic control, CYB and LYB fire departments and the Sister Island District Administration. Lessons learned from this exercise were used to improve procedures and another exercise was planned for January 2017. These exercises are essential to ensure that the Airline is prepared for any events involving its aircraft.

Special procedures were developed to utilize a Flight Risk Analysis Tool that has resulted in the CAACI granting permission for Express to conduct night flights into LYB in emergency situations. The Safety Department was the lead on this project producing the initial risk assessment and in conjunction with Express Flight Operations, produced the operational procedures for compliance with the identified risks for night time flights at LYB. The ability to provide this support to residents and visitors requiring prompt medical attention in life threatening situations, or for national emergencies, is essential in keeping with Cayman Airways' obligations to serve the Sister Islands.

Commercial

Cayman Airways achieved record passenger revenue of US\$59.8 million in FY2015/16, growth of 1% from the prior year, and the largest passenger revenue ever recorded by the Airline.



The Airline continued to collaborate and partner with the CIDOT to ensure that Cayman Airways was used as effectively as possible to increase visitation to the islands. The direct results of this collaboration were evident as the CIDOT was able to report that the Cayman Islands received more than 385,378 stayover tourist arrivals during the calendar year 2015³ (2014: 382,816), the best performing year for the country in more than a decade.

To further its global reach, Cayman Airways continues to pursue interline partnerships with other carriers. In recent years, the Airline has entered into interline agreements with Germany based Condor Airlines (and its parent company UK based Thomas Cook) and Italy based Alitalia. During the year, the Airline was notified by Virgin Atlantic that they were migrating to a new reservation system and, in revisiting their existing interline agreements, opted to end the agreement with Cayman Airways. This loss left British Airways as the sole British interline partner of Cayman Airways.

The Airline's partnership with various wholesalers continued with the retention of 100% of the key US wholesaler agencies and growth in their annual revenue to meet targets. The Airline continued its targeting of the MICE (Meetings, Incentives, Conferences and Exhibitions) market to grow this specialized form of group tourism. At the same time, the Airline continued its longstanding relationship and support of the dive tourism market.

In September 2015, the Airline was notified that Cuban nationals holding Spanish passports (or those otherwise able to travel legally to the USA) would be able to travel in limited numbers on the USA-originating charter flights. In December 2015 USA President Obama announced the

³ Source: Cayman Islands Department of Tourism Statistics

<http://www.caymanislands.ky/statistics/visitorarrivals/airvisitorarrivals.aspx>

normalizing of relationships with Cuba and the introduction of regular direct flights between the two countries.

Through the end of the fiscal year, the continuing relationship evolution between the USA and Cuba had some limited negative impact on the Airline's passenger volume and average yield. However, growth in other markets was able to offset the modest decline in the Cuban market.

During FY2015/16, the Airline expanded its mileage partnership program with an agreement with phone service provider Digicel allowing the communication company to purchase miles from Cayman Airways. The purchased miles are then used by Digicel to reward their customers.



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Flight Operations

In October 2015, the CIAA advised the Airline that in order for them to comply with a regulatory requirement, a Runway End Safety Area ("RESA") would need to be established by shortening the usable length of the runway at GCM. Cayman Airways, along with others airlines operating into GCM, provided CIAA with an outline of the impact of the RESA on their operations. For the Company, it was anticipated that the annual cost impact of complying with the RESA would be in the region of US\$0.8 million to US\$1.1 million. As the RESA was enacted by the CIAA in early 2016, the Airline ultimately adopted the lowest cost option, unbalanced field length take-off procedures, which is anticipated to have an annualized impact of US\$0.8 million due to increases in long-term engine maintenance costs.

A number of equipment related issues contributed heavily to a disappointing level of on-time performance in the year, including a two-month unanticipated C-Check extension for one aircraft resulting in three jet aircraft available to accomplish flying that would normally be operated by four aircraft. As that aircraft returned to service, ground handlers in Tampa damaged another aircraft which caused it to be out of service for another six weeks. The entire fourteen week period occurred during the Airline's busiest time of the year which amplified the situation. By the last quarter of the fiscal year, all aircraft were operating as normal and on-time performance began to rebound. With

additional aircraft expected to join the fleet in the next fiscal year, the Airline expects the 2016/17 fiscal year to result in a much improved on-time performance.

During the year, the Flight Operations department was able to donate used iPad's that had previous served Cayman Airways pilots as "Electronic Flight Bags" in the cockpits of the Airline's 737-300 aircraft, to Pediatric Unit at the Cayman Islands Hospital for use by patients.

Our People

Cayman Airways is committed to attracting and retaining the brightest and best team possible. To that end, the Cayman Airways family of employees consists of highly dedicated and talented individuals.



Representing 27% of total expenses in FY2015/16 (25% in FY2014/15), staff salaries and wages represent a significant portion of the Airline's expenses. The Airline's Full Time Equivalent⁴ ("FTE") employee count ended the year at 423 (up 6% from the prior year).

At year-end, Cayman Airways employed a total of 360 Caymanians within its 398 Cayman-based employees. The remainder of these employees were primarily either married to Caymanians, held permanent residency (with right to work) or were exempted international flight crew. Additionally, the Airline had also been granted a total of twenty-four work permits for expatriate workers employed in various specialty roles throughout the company.

Continuing its mission of actively recruiting the brightest and best Caymanian talent, in October 2015, after a rigorous selection process, ten new Caymanian flight attendants successfully completed their training and were awarded their wings to begin new roles on board.

⁴ A Full Time Equivalent represents the hours worked by one employee on a full-time basis. The concept is used to convert the hours worked by several part-time employees into the hours worked by full-time employees. On an annual basis, an FTE is considered to be 2,080 hours, which is calculated as: 8 hours per day x 5 work days per week. By converting part-time hours worked into full time equivalents, the Airline is able to track how many full-time staff they equate to.



Throughout the fiscal year, several Caymanian students gained valuable work experience in the aviation industry through temporary placements in various areas of Cayman Airways. The Airline continued in its partnership with the "Superior Auto" automotive mechanic training program on island, providing students the opportunity to gain on the job experience at Cayman Airways during their placement in the Ground Service Equipment unit. Whilst employed with Cayman Airways, these students worked towards completing their mechanical certification. These types of partnering programs focus on facilitating a formal succession plan geared towards transitioning young Caymanians into the Aviation Industry from an early age. It is anticipated that through these partnership programs we can assist in the development of young Caymanian aviation professionals; hence reducing our overall need to recruit work permit holders for specialized positions. This is especially essential in areas such as Maintenance and Engineering.

During July 2015 the second annual Cayman Airways 5k fun run/walk took place. The run, geared primarily towards Cayman Airways staff and their families, and scheduled to coincide with the annual anniversary celebrations, was well attended and provided a tremendous opportunity for comradery and teambuilding. The Company's popular Family Fun Day took place a week later and again brought the Airline's team together to celebrate the Airline's 47th anniversary.

Information Technology

During FY2015/16, the Information Technology ("IT") Department focused its primary efforts on ensuring that all operational and business areas of the company were able to operate with minimal disruption.

The department continued its yearly rolling plan on the phased replacement of aging workstations and monitors. The department also implemented an automated patch management solution for desktops and servers. This solution has allowed the department to update and deploy software to the various remote offices negating the need for as many onsite visits.

The conversion of the Tampa International Airport check-in counter from a standalone system/network managed by IT to an airport-wide common-use environment where the Airport now manages and supports the physical hardware and infrastructure. All Airline solutions software and websites were updated to introduce new functionality and meet different regulatory requirements.

The United States Department of Transportation accessibility requirements required the Airline's website, specifically its booking and check-in engine, to undergo code changes in order to make the websites more accessible to persons with disabilities. This took place the same time as the implementation of a mobile friendly version of Caymanairways.com to round out recent implementations of the mobile booking and mobile check-in websites.

Kiosks have been implemented at the Owen Roberts Airport and will allow passengers without bags to check-in and head directly to the Security checkpoint. Passengers will also be able to re-print lost boarding passes and change /choose their seat assignments reducing the amount of persons that need to queue at the counter for assistance.

FY2015/16 saw the first major staff turnover in the IT department since 2009 with the departure of two members of the team, one choosing to pursue their dream of being a pilot within Cayman Airways and the other seeking opportunities elsewhere. Two replacement staff members have been hired and the opportunity was taken to fill the vacant position of Programmer/Developer to assist with the development and modernization of existing and new in-house systems.

Our Community



Cayman Airways, through its Sponsorship Committee, supports a variety of organizations, events and charitable initiatives that have core values and objectives reflecting that of the Airline. Additionally, where there is untapped opportunity to drive incremental tourism to the Cayman Islands or to develop Caymanian talent, Cayman Airways works with partners to explore such opportunities and support the local community.

A selection of the organizations, events or charities supported by Cayman Airways in 2015/2016 include:

Events

- Batabano Carnival
- Braccanal Carnival
- Cayman Islands Golf Invitational
- CIIPA's Professional Development Week
- Cayman Swordfish Challenge
- Cayman Airways Invitational Football Tournament
- Cayman Islands Invitational Track Meet
- Deputy Governor's 5k Walk/Run
- Flowers Sea Swim
- Miss Cayman
- Pirates Week Festival
- Run Down

Organizations/Charities

- Annual Health Conference
- Breast Cancer Society
- Cayman Airways Flight Club
- Cayman Heart Fund
- Cayman Islands Agriculture Society
- Cayman Islands Anglers Association
- Cayman Islands Cancer Society
- Cayman Islands National Gallery

- Cayman Islands National Netball Association
- Cayman National Cultural Foundation
- Cayman Rugby Football Union
- Fresh Air Fund
- Lions Club
- Meals on Wheels
- National Trust
- Rotary Club
- Sister Islands Tourism Association
- Special Olympics
- Various Schools
- Various visiting Journalists, Travel Agents etc.

Looking ahead

At fiscal year-end, the Airline's 8-month forward bookings were generally flat against the prior year. Unearned transportation revenue was down about 3%, however, indicating that while passenger loads were projecting a similar pace as the prior year, the average yield was trending down slightly.

The Company determined that a downward pressure on fares between Havana and Cayman and a general shortening of booking windows (particularly in the Havana and Miami markets) would result in a few less bookings when compared year-over-year with a lower average yield.

Due to tremendous uncertainty in the Cuban market, the Airline has adopted a cautious approach in this market. While the future impact of this approach is uncertain, it will no doubt have an impact on the operations of Cayman Airways and is being monitored carefully. As such, the Airline will continue to take steps to generate passenger volume and facilitate revenue growth.

Oil prices continue to remain low at year-end. There are indications that an over-supply of oil exists while production levels are at an all-time high. With no specific driver to move oil prices at the moment, trader speculation seems to be the primary price mover. Cayman Airways continues to watch oil prices carefully and will take steps necessary to minimize its exposure to volatile prices when appropriate.

Cayman Airways FY2015/16 Strategic Goals & Objectives

The key strategic goals and objectives for Cayman Airways Limited included in the FY2015/16 Ownership Agreement were as follows:

- The mission of Cayman Airways is to be the premier choice of safe, reliable, and enjoyable air transportation to all markets we serve, in the best interests of the Cayman Islands. A national airline of which we can all be immensely proud of, one which reflects a top quality airline, delivering top quality service; an organization which is attracting the best and brightest Caymanian talent and developing its people and the airline to reach their full potential.
- The Airline is a major employer within the Cayman Islands and must strive to attract and develop the best and brightest Caymanian talent. The Airline offers several unique employment opportunities in specialised fields and will continue to create an environment of opportunity for Caymanians. This role has an immeasurable socio-economic impact on the Cayman Islands and is crucial to continued national development and growth. The Airline will therefore, as it continues to target cost reductions, do so in a manner that places emphasis on the retention and provision of services and employment locally, versus overseas when possible.
- The Airline will continue the process of restructuring and operational reform in order to drive revenue, reduce costs, and achieve the maximum levels of efficiency where possible.
- Utilizing the Airlift Framework as a funding model, the Airline and Government shall have a common objective to ensure that the Airline is adequately funded to undertake the core and strategic roles defined in the Airlift Framework. Adequate levels of Government funding and the Airline's continued efforts to operate at maximum efficiency are necessary to ensure that no deficit between revenue and expenses arises.
- After years of historical losses, the Airline is faced with a severe deficiency of working capital. The Government and the Airline must together strive to create adequate levels of working capital in order to ensure that the Airline has the ability to invest where necessary to improve efficiency and viability. This working capital deficiency may from time to time require external borrowings or equity injections from the Government in order to ensure the Airline's continued viability. The Airline therefore aims to have its historical debt (formal and informal), refinanced in a manner that improves cash flow and provides adequate levels of working capital to be realised, in order to increase the viability and efficiency of the Airlines of the operations.
- Should a deficit (revenue) arise due to unbudgeted situations during the course of the year, which are beyond the Airline's control, the Government may be asked to provide supplementary funding in order to ensure that the Airline maintains an ability to meet its

operating obligations and fulfil the government's strategic objectives for the Airline. The Airline will do all possible to avoid this scenario and will keep the Government promptly educated on all situations that may lead to a need for additional funding within the budget year.

- The Airline is a major contributor to the Cayman Islands economy both directly and indirectly through employment and the purchase of goods and services within the Cayman Islands. The Airline is also a strategic tool used by the Government to drive economic activity, particularly in the tourism industry by providing guaranteed airlift and competitive market environment. This includes providing direct air service to the leading tourist source markets, targeted by the Cayman Islands Department of Tourism. The Airline will therefore continue to work with the Cayman Islands Department of Tourism to realise the maximum benefit from the Department of Tourism's marketing efforts by aligning capacity with the demand generated from the Department of Tourism's efforts.
- The total economic impact or contribution to the Cayman Islands by Cayman Airways (from studies going back more than ten years), is over CI\$150M per annum. The Airline must therefore continue to balance its efforts to operate at peak efficiency with its efforts to create the maximum economic impact possible. The Airline's value on a macroeconomic level outweighs the Government's annual investment through this purchase agreement. Whilst this is an overriding value and an excellent return on investment, the Airline's economic contribution must continue to be provided in the most efficient manner. The Airline and the Government must therefore maintain alignment through consultation in the budget year to ensure the correct balance between the Airline's performance and the Airline's contribution to the local economy.
- Whilst the Airline is equipped with the full infrastructure of a typical Airline, the Airline is challenged to cover all its fixed costs from operating revenues, because of its relatively small size and the relatively small markets served (economies of scale). The Airline must therefore seek out opportunities within the surplus category of the Airlift Framework that increases passenger and cargo throughput, in order to maximise efficiency and reduce dependence on Government funding. This should include the exploration of strategic partnerships with other airlines and potential industry partners, to reduce costs and enhance revenue potential, but in a manner that does not degrade the Airline's strategic value to the Cayman Islands. The Airline expects to continue working with the public sector as well as to embark on joint initiatives with the private sector to coordinate marketing and advertising efforts. A key objective of the Airline is to stimulate incremental visitation through increased visitor arrivals and incremental room nights.
- Fuel is the most volatile and unpredictable cost facing the Airline. The Company intends to continue to monitor and aggressively pursue alternatives to minimize the costs of fuel. Cayman Airways however expects to continue to be faced with high fuel prices and extreme volatility for the budget year. The Airline expects fuel prices to be between US\$50 and US\$100 per barrel for the budget year and has budgeted fuel expense and associated revenue from airfares accordingly. It must be noted that the Airline is not always able to

pass on increases in fuel, without negatively affecting demand and overall revenues. The Airline will therefore strive to recoup fuel increases from the consumer to the maximum extent possible, but will be limited in its efforts so as to not negatively impact the Airline's overall revenue performance nor the Airline's strategic value to the local economy and tourism industry.

- The Airline has historically been operating with several outdated or manual systems to manage and control some of its commercial and operating functions. The Airline will continue to strive to implement technological advances that will improve the Airline's operating and financial performance.
- The National Flag Carrier will continue to explore commercial agreements with select international carriers where deemed beneficial to the Cayman Islands. The commercial agreements may range from connected websites to full code share agreements. Cayman Airways is committed to working closely with foreign carriers flying into the Cayman Islands, provided that the foreign carrier provides direct economic benefit to the country or serves to provide additional visitation opportunities.

Summary of Achievements during the Year

Throughout FY2015/16, in keeping with its business plan, the Company focused its efforts to ensure that it accomplished its targeted objectives. While many of these accomplishments are mentioned earlier in this document, below is a summary of some of the FY2015/16 achievements:

- Cayman Airways achieved its best financial performance in its history in FY2015/16 (see Appendix A) – even outperforming the record set just the year before. This was achieved largely by benefits from the purchase of three of its jet aircraft, growth in passenger revenue and a reduction in fuel costs.
- During the year, the Airline worked with many different organizations to stimulate travel to the Cayman Islands. Examples of this effort include Sporting Events (Cayman Islands Invitational Track Meet, Cayman Airways Invitational Youth Football Cup), National Events (Pirates week) and local accommodation partners.
- During the year, the Airline continued to promote aggressively the use of its website for booking and saw the majority of US visitors using it as their primary source of booking. The Airline remains focused on developing this resource further.
- Cayman Airways provided ground handling services to several carriers throughout the year.
- The Airline delivered new and recurrent staff training with an aim to improve customer service and technical competence. There is more work needed in this area.
- Cayman Airways introduced an enhanced maintenance software solution and has embarked on several other initiatives (airport kiosks etc.) which, when fully implemented, are expected to enhance service and reduce overall costs.
- Flight optimization and the “right-sizing” of domestic aircraft resulted in optimized fuel consumption. Fuel tendering at the beginning of the year, fuel tankering and a general reduction in oil prices provided savings in fuel costs.
- The Airline worked in tandem with the CIDOT to coordinate marketing and advertising efforts. The Airline was able to be used strategically to develop and drive a variety of national sales campaigns. This included being used as a means of encouraging local properties and tourism partners to participate in national events.
- During the year, Cayman Airways promoted and managed interline agreements with various foreign carriers to ensure that people were able to easily and affordably travel to the Cayman Islands.
- The Airline completed its fleet replacement plan, completed the purchase of three of its existing jet fleet and acquired a leased Saab 340B+ to “right-size” its domestic fleet.

APPENDIX A

2015-16 Audited Financials

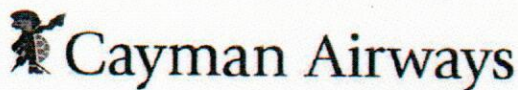
CAYMAN AIRWAYS LIMITED
CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2016

CAYMAN AIRWAYS LIMITED
CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2016

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STATEMENT OF RESPONSIBILITIES
30 June 2016

These financial statements have been prepared by Cayman Airways Limited in accordance with the provisions of the Public Management and Finance Law (2013 Revision).

We accept responsibility for the accuracy and integrity of the financial information in these financial statements and their compliance with the Public Management and Finance Law (2013 Revision).

As Chairman and Executive Vice President, we are responsible for establishing and have established and maintain a system of internal controls designed to provide reasonable assurance that the transactions recorded in the financial statements are authorised by law, and properly record the financial transactions of Cayman Airways Limited.

As Chairman and Executive Vice President we are responsible for the preparation of Cayman Airways Limited financial statements and for the judgements made in them.

The financial statements fairly present the consolidated statements of financial position, financial performance, changes in shareholders' equity, and cash flows the financial year ended 30 June 2016.

To the best of our knowledge we represent that these financial statements:

- a) Completely and reliably reflect the financial transactions of Cayman Airways Limited for the year ended 30 June 2016;
- b) Fairly reflect the financial position as at 30 June 2016 and its comprehensive income for the year ended 30 June 2016;
- c) Comply with International Financial Reporting Standards under the responsibility of the International Accounting Standards Board.

The Office of the Auditor General conducts an independent audit and expresses an opinion on the accompanying financial statements. The Office of the Auditor General and its agent have been provided access to all the information necessary to conduct an audit in accordance with International Standards of Auditing.

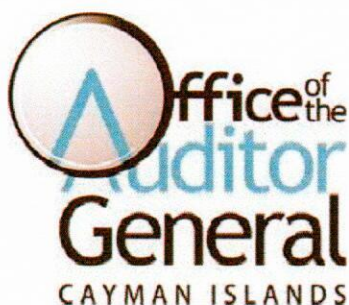
Mr. Philip Rankin
Chairman
Cayman Airways Limited

Date: Feb. 24, 2017

Mr. Paul Tibbetts
Executive Vice President & CFO
Cayman Airways Limited

Date: Feb. 24, 2017





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AUDITOR GENERAL'S REPORT

To the Shareholder & Board of Directors of Cayman Airways Limited

I have audited the accompanying financial statements of the Cayman Airways Limited and its subsidiary (together the "Company"), which comprise the consolidated statement of financial position as at 30 June 2016 and the consolidated statements of comprehensive income, changes in shareholder's equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 4 to 29 in accordance with the provisions of Section 60(1)(a)(ii) of the *Public Management and Finance Law (2013 Revision)*.

Management's Responsibilities for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

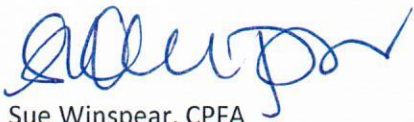
I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion. In rendering my audit opinion on the consolidated financial statements of the Company, I have relied on the work carried out on my behalf by a public accounting firm who performed their work in accordance with International Standards on Auditing.

Opinion

In my opinion the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Cayman Airways Limited and its subsidiary as at 30 June 2016, and their consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

I draw your attention to Notes 2 and 14 to the consolidated financial statements, which state that the Company is dependent upon the financial support of the Government of the Cayman Islands, including purchase commitments, to enable it to continue as a going concern and to meet its obligations as they fall due. My opinion is not qualified in respect of this matter.



Sue Winspear, CPFA
Auditor General

24 February 2017
Cayman Islands

CAYMAN AIRWAYS LIMITED**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

(Expressed in United States dollars)

	As at 30 June 2016	As at 30 June 2015
ASSETS		
Current assets		
Cash on hand and at bank	\$ 4,351,492	\$ 6,078,316
Trade and other receivables (Note 6)	8,128,302	4,484,823
Security deposits (Note 4)	320,000	36,196
Prepayments and other assets (Note 4)	796,298	814,057
Total current assets	<u>13,596,092</u>	<u>11,413,392</u>
Non-current assets		
Security deposits (Note 4)	1,182,852	953,940
Property, plant and equipment (Note 5)	28,981,914	25,977,976
Total non-current assets	<u>30,164,766</u>	<u>26,931,916</u>
TOTAL ASSETS	<u>\$ 43,760,858</u>	<u>\$ 38,345,308</u>
LIABILITIES AND SHAREHOLDER'S DEFICIT		
Current liabilities		
Accounts payable and accrued expenses (Note 7)	\$ 39,184,583	\$ 40,911,940
Loans payable (Note 8)	5,068,422	5,037,523
Unearned transportation revenue	10,673,733	11,055,098
Frequent flyer provision (Notes 9 and 19)	2,840,000	3,044,500
Total current liabilities	<u>57,766,738</u>	<u>60,049,061</u>
Non-current liabilities		
Loans payable (Note 8)	<u>19,178,661</u>	<u>24,228,226</u>
Total non-current liabilities	<u>19,178,661</u>	<u>24,228,226</u>
Total liabilities	<u>76,945,399</u>	<u>84,277,287</u>
Shareholder's deficit (Note 2)		
Share capital (Note 10)	38,376,215	38,376,215
Share subscriptions (Note 10)	73,565,746	64,637,174
Accumulated deficit	(145,126,502)	(148,945,368)
Total shareholder's deficit	<u>(33,184,541)</u>	<u>(45,931,979)</u>
TOTAL LIABILITIES AND SHAREHOLDER'S DEFICIT	<u>\$ 43,760,858</u>	<u>\$ 38,345,308</u>

Approved for issuance on behalf of the Cayman Airways Limited Board of Directors on 24 February 2017 by:

Philip Rankin
.....
Director

Danielle Look Loy
.....
Director

The accompanying notes are an integral part of these consolidated financial statements.

CAYMAN AIRWAYS LIMITED**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

(Expressed in United States dollars)

	Year ended <u>30 June.</u>	
	<u>2016</u>	<u>2015</u>
Income		
Passenger revenue	\$ 59,804,522	\$ 59,202,752
Government output purchases (Note 14)	20,602,143	21,197,381
Cargo revenue	3,393,592	3,064,914
Handling revenue	1,765,547	2,179,158
Other revenues	<u>2,818,157</u>	<u>2,690,251</u>
Total income	<u>88,383,961</u>	<u>88,334,456</u>
Expenses		
Salaries and wages (Note 11)	22,935,703	20,737,682
Other staff costs (Note 12)	6,369,760	5,522,203
Staff gratuitous payment (Note 11)	512,029	-
Aircraft fuel	11,665,217	17,532,681
Aircraft lease expense (Note 13)	3,814,380	3,315,357
Commissions and related sales costs	4,298,914	4,191,157
Maintenance, materials and repairs	4,942,614	4,812,819
Landing and parking fees	2,347,189	2,119,146
Aircraft and passenger service	13,672,438	12,245,013
Advertising and promotion	215,037	208,908
Communications	724,374	743,502
Information technology	1,578,925	1,728,370
Professional expenses	731,904	1,115,383
General and administrative	2,939,008	2,387,663
Depreciation (Note 5)	3,016,775	3,183,430
Other operating expenses	<u>3,959,365</u>	<u>3,821,779</u>
Total expenses	<u>83,723,632</u>	<u>83,665,093</u>
NET INCOME, BEFORE FINANCE COST	4,660,329	4,669,363
Finance cost		
Interest expense (Notes 8)	<u>(841,463)</u>	<u>(1,029,151)</u>
NET INCOME FOR THE YEAR (NOTE 2)	<u>\$ 3,818,866</u>	<u>\$ 3,640,212</u>
TOTAL COMPREHENSIVE INCOME	<u>\$ 3,818,866</u>	<u>\$ 3,640,212</u>

The accompanying notes are an integral part of these consolidated financial statements.

CAYMAN AIRWAYS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

(Expressed in United States dollars)

	<u>Share capital</u> <u>(Note 10)</u>	<u>Share</u> <u>subscriptions</u> <u>(Note 10)</u>	<u>Accumulated</u> <u>deficit</u>	<u>Total</u>
Balance at 30 June 2014	38,376,215	54,064,356	(152,585,580)	(60,145,009)
Net income for the year	-	-	3,640,212	3,640,212
Share subscriptions (Notes 10 and 18)	<u>-</u>	<u>10,572,818</u>	<u>-</u>	<u>10,572,818</u>
Balance at 30 June 2015	38,376,215	64,637,174	(148,945,368)	(45,931,979)
Net income for the year	-	-	3,818,866	3,818,866
Share subscriptions (Notes 10 and 18)	<u>-</u>	<u>8,928,572</u>	<u>-</u>	<u>8,928,572</u>
Balance at 30 June 2016	<u>\$ 38,376,215</u>	<u>\$ 73,565,746</u>	<u>\$ (145,126,502)</u>	<u>\$ (33,184,541)</u>

The accompanying notes are an integral part of these consolidated financial statements.

CAYMAN AIRWAYS LIMITED**CONSOLIDATED STATEMENT OF CASH FLOWS**

(Expressed in United States dollars)

	Year ended 30 June,	
	2016	2015
Cash flows from operating activities		
Net income for the year	3,818,866	3,640,212
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	3,016,775	3,183,430
Interest expense	841,463	1,029,151
(Increase) in trade and other receivables	(3,643,479)	(19,156)
(Increase) in prepayments and security deposits	(494,957)	(193,471)
(Decrease) / Increase in accounts payable and accrued expenses	(1,727,357)	2,300,757
(Decrease) / Increase in unearned transportation liability	(381,365)	66,254
(Decrease) / Increase in frequent flyer provision	(204,500)	150,000
Net cash provided by operating activities	<u>1,225,446</u>	<u>10,157,177</u>
Cash flows from investing activities		
Purchase of property, plant and equipment (Note 5)	(6,020,713)	(3,508,331)
Net cash used in investing activities	(6,020,713)	(3,508,331)
Cash flows from financing activities		
Share subscriptions (Note 10)	8,928,572	7,261,904
Repayment of loans (Note 8)	(5,018,666)	(2,333,274)
Finance lease payments (Note 13)	-	(4,625,000)
Interest paid	(841,463)	(1,029,151)
Net cash provided by/ (used in) financing activities	<u>3,068,443</u>	<u>(725,521)</u>
Net increase / (decrease) in cash and cash equivalents	(1,726,824)	5,923,325
Cash and cash equivalents - beginning of year	<u>6,078,316</u>	<u>154,991</u>
Cash and cash equivalents - end of year	<u>\$ 4,351,492</u>	<u>\$ 6,078,316</u>

The accompanying notes are an integral part of these consolidated financial statements.

CAYMAN AIRWAYS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2016

(Expressed in United States dollars)

1. Incorporation and activity

Cayman Airways Limited (the "Company") was incorporated in the Cayman Islands on 7 August 1968 and is wholly-owned by the Government of the Cayman Islands (the "Government", or the "Shareholder").

The Company's main activity is the provision of scheduled passenger and cargo air transportation to, from, and within the Cayman Islands.

On 4 February 2004, the Company established Cayman Airways Express Limited, being a wholly owned subsidiary incorporated in the Cayman Islands. Cayman Airways Express Limited was established to provide air transportation between Grand Cayman and the islands of Cayman Brac and Little Cayman.

The Company's registered office is 233 Owen Roberts Drive, George Town, Grand Cayman, Cayman Islands.

2. Going concern

Annually, the Government of the Cayman Islands contracts with the Company to purchase certain strategic flights and services (Note 14). Terms of this contract are defined in a Purchase Agreement and the associated payments received by the Company are referred to as "Output Payments". Purchase commitments made by the Government based on this agreement result in the Government being the single largest customer of the Company, with its Output Payments representing 23% (2015: 24%) of total revenue for the financial year.

Currently and historically, the Company has been structured in such a manner as to allow it to facilitate its requirements under the Purchase Agreement. Under its current structure the Company relies upon; these purchase commitments; capital contributions; bank loan (Note 8) and lease guarantees (Note 13) made by the Government of the Cayman Islands in the Company's favour; as well as the Government's assistance in managing the settlement of amounts owed to other related parties (Note 7) which are under Government control, to allow it to continue as a going concern. For the year ended 30 June 2016, the Company has realized a net income of \$3,818,866 (2015: net income of \$3,640,212). Cumulative shareholder's deficit as of 30 June 2016 was \$33,184,541 (2015: \$45,931,979).

In 2010, the Government agreed to address the Company's Shareholder deficit through the repayment of \$60.1 million (CIS\$51.0 million) over 10 years (Note 18). At 30 June 2016 the remaining commitment due is \$24.3 million (CIS\$20.4 million) (2015: \$30.4 million (CIS\$25.5 million)).

Consequently, the consolidated financial statements have been prepared on the going concern basis. These consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or amounts and classification of liabilities that may be necessary should the Company be unable to continue as a going concern.

In the event that the Government is unable to fulfil its annually contracted purchase commitment to the Company, and/or continue to provide the other support noted above, the Company would likely be unable to continue its operations as currently structured, and thus likely not continue as a going concern. In such a scenario the Company, in its current structure, would be unable to realise its assets and discharge its liabilities in the normal course of business.

CAYMAN AIRWAYS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2016

(Expressed in United States dollars)

3. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation: The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements have been prepared under the historical cost convention. As outlined in Note 2 above, the continued existence of the Company is based on the ongoing support from the Government and the maintenance of the credit facilities provided by the Company's bankers, pursuant to the guarantees provided by Government.

As management considers that this support will be ongoing and there are no indications which suggest otherwise, management considers this basis of preparation to be appropriate.

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. These estimates and associated assumptions are based on historical experience and various other factors management believes to be reasonable under the circumstances, and the results of such estimates form the basis of judgments about carrying values of assets and liabilities that are not readily apparent from other sources. These underlying assumptions are reviewed on an ongoing basis. A revision to an accounting estimate is recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if these are also affected. Principle sources of estimation uncertainty are outlined in Note 19. Actual results may differ from those estimates.

a) New standards and amendments adopted by the Company

No new standards or amendments were adopted for the first time for the annual reporting period commencing 1 July 2015.

b) New standards, amendments and interpretations issued but not effective for the financial year beginning July 1, 2015 and not early adopted

Certain new accounting standards and interpretations have been published that are not mandatory for June 30, 2016 reporting periods and have not been early adopted by the Company. The Company's assessment of the impact of these new standards and interpretations is set out below.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39, 'Financial Instruments: Recognition and Measurement', that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Company is yet to assess IFRS 9's full impact.

CAYMAN AIRWAYS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2016

(Expressed in United States dollars)

3. Summary of significant accounting policies (continued)

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2017 and earlier application is permitted. The Company is assessing the impact of IFRS 15.

IFRS 16, 'Leases' primarily affects the accounting by lessees and will result in the recognition of almost all leases on the Consolidated Statement of Financial Position. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. The Consolidated Statement of Comprehensive Income will also be affected because the total expense is typically higher in the earlier years of a lease and lower in later years and operating expense is replaced with interest and depreciation. The standard is effective for accounting periods beginning on or after 1 January 2019 and earlier application is permitted only if IFRS 15 is adopted at the same time. The Company is assessing the impact of IFRS 16.

There are no other standards that are not yet effective and that would be expected to have a material impact on the Company in the current or future reporting periods and on foreseeable future transactions.

The significant accounting policies of the Company, which have been consistently applied to all years presented (unless otherwise stated), are as follows:

Principles of consolidation: The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary (Note 1). These consolidated financial statements have been prepared in accordance with IFRS 10 – Consolidated Financial Statements.

Property, plant and equipment: Property, plant and equipment is initially recorded at cost. Cost includes all direct attributable costs of bringing the asset to working condition for its intended use.

Property, plant and equipment are reviewed annually at each reporting date for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable or when impairment indicators are present. Assets whose carrying values exceed their recoverable amount are written down to the recoverable amount, being the higher of fair value less costs of disposal or value in use (on a discounted cash flow basis), and the resulting impairment loss recorded in the Consolidated Statement of Comprehensive Income. To the extent that a previously recognised impairment loss no longer exists or decreases, the carrying amount of the asset will be increased to the lower of recoverable amount or depreciated cost and the resulting reversal of impairment loss will be recorded in the Consolidated Statement of Comprehensive Income.

CAYMAN AIRWAYS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2016

(Expressed in United States dollars)

3. Summary of significant accounting policies (continued)

Depreciation: Property, plant and equipment are depreciated to their estimated residual values using the straight-line method over their estimated useful lives as measured in years or flight hours as follows:

<u>Type of Property, plant and equipment</u>	<u>Estimated useful life</u>
Owned aircraft airframe and related overhauls	
Airframe and related components	12,000 – 30,000 flight hours
D checks and landing gear	21,000 flight hours or 105 months
C checks	24 months
Aircraft engines and related overhauls	
Engine	5 – 8 years
Limited life parts	20,000 cycles*
Other property, plant and equipment:	
Buildings	20 – 50 years
Rotables	12 years
Flight equipment	10 years
Ground equipment	7 years
Other property, plant and equipment	3 – 15 years

Land is not depreciated.

*A cycle represents a one way completed flight from start up to shut down.

Where impairment losses have been recorded against property, plant and equipment, the recoverable amount is depreciated to estimated residual value over the remaining estimated useful life.

Aircraft maintenance:

(a) Routine maintenance

All routine aircraft maintenance is provided on a continuous basis and the related costs are expensed as incurred.

(b) Periodic major maintenance and overhauls

For aircraft held under operating lease agreements, the Company may be contractually committed to either return the aircraft in a certain condition or to compensate the lessor based on the actual condition of the airframe, engines and life-limited parts upon return. In order to fulfil such conditions of the lease, maintenance in the form of major airframe overhaul, engine maintenance checks, and restitution of major life-limited parts, are required to be performed during the period of the lease and upon return of the aircraft to the lessor. In such circumstances the estimated airframe and engine maintenance costs and the costs associated with the restitution of major life-limited parts, are accrued and charged to Consolidated Statement of Comprehensive Income over the lease term. For aircraft where there are no such contractual commitments or lessor imposed conditions, the costs associated with maintenance are accounted for in accordance with (a) above.

For owned aircraft, major maintenance including spares and labor costs, is recognised and depreciated over the expected life between major overhauls.

CAYMAN AIRWAYS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2016

(Expressed in United States dollars)

3. Summary of significant accounting policies (continued)

Trade and other receivables: Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade or other receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the Consolidated Statement of Comprehensive Income. When a receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to the Consolidated Statement of Comprehensive Income.

Other assets: Where the Company expects a provision, recognised in accordance with IAS 37 "Provisions, contingent liabilities and contingent assets", to be reimbursed under a contractual arrangement with a third party, the reimbursement is recognised as a separate asset but only when, it is virtually certain that reimbursement will be received. Expenditure and the related reimbursement under such arrangement are netted in the Consolidated Statement of Comprehensive Income.

Security deposits: Security deposits, which are refundable, are initially recognised at fair value and subsequently carried at amortised cost. Security deposits are classified as non-current assets where the period remaining to refund is greater than twelve months from the reporting date.

Accounts payable: Accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. Accounts payable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Cash and cash equivalents: Cash and cash equivalents consist of cash on hand and at bank which is available on demand and short term bank overdrafts.

Borrowings: Borrowings are recognised initially at fair value, net of transaction costs incurred, and are subsequently carried at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the Consolidated Statement of Comprehensive Income over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period.

Share capital and share subscriptions: Ordinary shares are classified as equity. Where funds are received from the Shareholder in respect of the issuance of shares, but where those shares are not yet issued to the Shareholder and pending issuance of shares at a future date, those funds are presented as Share subscriptions and classified as equity on the Consolidated Statement of Financial Position. When the formalities associated with the issuance of these new shares takes place, the amount shown in the Share subscription caption will be transferred to Share capital.

Foreign currency translation: The accounting records of the Company are maintained in United States dollars. Items included in the consolidated financial statements are measured using United States dollars which is the currency of the primary economic environment in which the Company operates (the "functional currency"). The consolidated financial statements are presented in 'United States dollars' ("USD"), which is the Company's presentational currency. Monetary assets and liabilities in a foreign currency are translated into United States dollars at the prevailing rates of exchange at reporting date. Revenue receipts and expense payments are translated into United States dollars at the prevailing exchange rate on the respective dates of transactions. The rate of exchange between United States dollars and Cayman Islands Dollars is fixed at US\$0.84 to CI\$1.

CAYMAN AIRWAYS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2016

(Expressed in United States dollars)

3. Summary of significant accounting policies (continued)

Revenues: Scheduled passenger and cargo revenues are recognised in the period in which transportation is provided, net of government taxes. Unearned revenue represents flight seats sold but not yet flown and is included as a current liability in an unearned transportation liability account. Passengers are only able to make reservations up to a twelve month period in advance of booking date. Consequently, all unearned transportation revenue is due within twelve months of the reporting date. It is released as income to the Consolidated Statement of Comprehensive Income as passengers fly. Unused tickets are generally recognised as revenue after an inactive period of 13 months has elapsed (the period after which the ticket becomes non-recoverable).

Handling Revenue: Handling revenue relates to revenue generated from technical handling and third party maintenance agreements with other airlines flying to the Owen Roberts International Airport. Revenue from these agreements is recognised in the Consolidated Statement of Comprehensive Income when the service is provided.

Other Revenue: Other revenue comprises revenue earned from the provision of other airline related services, including ticket change fees, refund penalties, in-flight sales and other product revenue. Inflight sales and certain other services are recognised in the Consolidated Statement of Comprehensive Income at the time the sale occurs or the service is provided. Ticket change fees and refund penalties are recognised in the Consolidated Statement of Comprehensive Income immediately.

Frequent flyer revenue: The Company's frequent flyer programme allows frequent travellers to accumulate 'Sir Turtle Rewards' points each time that they travel with the airline. These points entitle them to a choice of various awards, including free travel and upgrades. Additionally the Company sells Reward points to non-airline business partners.

The reward points are recognised as a separately identifiable component of the initial sale transaction by allocating the fair value of the consideration received between the award points and the other components of the sale such that the reward points are initially recognised as deferred income at their fair value and subsequently recognised as revenue on redemption of the miles by the participants to whom the miles are issued.

The frequent flyer provision in respect of the redemption under this programme is determined using various assumptions concerning the future behaviour of the participants. Those include the following assumptions:

- i) The fair value attributable to the awarded mileage credit has been calculated based on the weighted average fare price across all routes over the last five years; and
- ii) The rate of redemption for the program since its inception.

Revenue received against the issuance of Sir Turtle Rewards points is deferred as a liability and shown as provision on the Consolidated Statement of Financial Position until the points are redeemed or the passenger is uplifted in the case of flight redemptions. The frequent flyer provision is measured based on management's estimates of the fair value of the expected awards for which the points will be redeemed. The fair value of the awards is reduced to take into account the proportion of points which are expected to expire.

Airline and Regulatory Fees: In connection with the sale of flights, fees are collected on behalf of related and third parties such as airports and regulatory agencies. The fees collected are treated as a liability and are recognised in the Consolidated Statement of Financial Position within "Accounts payable and accrued expenses". The liability is generally extinguished when payments are made to these agencies. Certain of these fees are payable only if a passenger travelled and are not due to be paid to these agencies and, subject to contract terms, are also not refundable if the travel did not occur. The Company derecognises the liability for the collection of such fees on unused expired tickets, which are then recorded as "Other revenue".

CAYMAN AIRWAYS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2016

(Expressed in United States dollars)

3. Summary of significant accounting policies (continued)

Government output purchases: Payments made by Government from its purchase commitments are non-refundable and are recognised in the Consolidated Statement of Comprehensive Income during the period necessary to match with costs that they are intended to compensate. Output Payments are calculated according to the Purchase Agreement in place with Government (Note 14).

The Output Payments are accounted for in accordance with IAS 20. Output Payments by the Government are recognised at their fair value where there is a reasonable assurance that the amount will be received and the Company will comply with all attached conditions.

Pension plan: In accordance with the Cayman Islands National Pensions Law, 1996 (the "Law") those of the Company's employees that are located in the Cayman Islands participate in a defined contribution pension plan. Employees are required to contribute an amount up to 5% of their annual salaries to the plan during the year and the Company matches such contributions up to 5%. Employees based in the United States of America are eligible to participate in a 401K defined contribution pension plan. Contributions are matched by the Company, to a maximum of 3% of the employee's basic salary. Independent trustees administer both of these plans. The pension contributions paid by the Company under these plans are expensed as incurred in the Consolidated Statement of Comprehensive Income.

Expenses: Expenses are recognised in the Consolidated Statement of Comprehensive Income on an accrual basis.

Operating Leases: Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Operating leases and the associated leased assets are not recognised in the Company's Consolidated Statement of Financial Position. Payments made under operating leases (net of any incentives received from the lessor) are charged to the Consolidated Statement of Comprehensive Income on a straight-line basis over the period of the lease. In connection with certain operating lease of the aircraft (Note 13), the Company makes supplemental rental payments to the lessor based on usage of the aircraft. These supplemental rent payments are recognised as an asset only when, it is virtually certain that reimbursement will be received from the lessor.

Finance Leases: Leases of property, plant and equipment, where the Company has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in current liabilities. The interest element of the finance cost is charged to the Statement of Consolidated Loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

Provisions and contingencies: A provision is recognised in the Consolidated Statement of Financial Position when there is a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefit will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future outflow at a rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability.

The Company assesses the likelihood of any adverse outcomes to contingencies, including legal matters, as well as probable losses. Provisions are recorded for such contingencies when it is probable that a cash outflow will be incurred and the amount of the loss can be reasonably estimated. A contingent liability is disclosed where the existence of the obligation will only be confirmed by future events, or where the amount of the obligation cannot be measured with reasonable reliability. Provisions are re-measured at each reporting date based on the best estimate of the settlement amount.

CAYMAN AIRWAYS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2016

(Expressed in United States dollars)

3. Summary of significant accounting policies (continued)

Provisions and contingencies (continued): In relation to legal matters, estimates are developed in consultation with outside legal counsel handling the defence in these matters, using the current facts and known circumstances. The factors considered in developing the legal provisions include the merits and jurisdiction of the litigation, the nature and number of other similar current and past litigation cases, the nature of the subject matter of the litigation, the likelihood of settlement and current state of settlement discussions, if any.

Fair valuation: The Company classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability.

The determination of what constitutes 'observable' requires significant judgment by the Company. The Company considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

4. Security deposits & Prepayment and other assets

Security deposits and Prepayment and other assets are comprised of the following:

	<u>30 June 2016</u>			<u>30 June 2015</u>		
	<u>Current</u>	<u>Non-current</u>	<u>Total</u>	<u>Current</u>	<u>Non-current</u>	<u>Total</u>
Deposits for Aircraft & Engines	\$ 320,000	315,000	\$ 635,000	\$ 30,000	320,000	\$350,000
Deposits with Airports & Handlers	-	663,141	663,141	-	431,755	431,755
Other deposits and assets	-	<u>204,711</u>	<u>204,711</u>	<u>6,196</u>	<u>202,185</u>	<u>208,381</u>
Security Deposits	<u>320,000</u>	<u>1,182,852</u>	<u>1,502,852</u>	<u>36,196</u>	<u>953,940</u>	<u>990,136</u>
Prepayments and other assets	<u>\$ 796,298</u>	<u>-</u>	<u>\$ 796,298</u>	<u>\$814,057</u>	<u>-</u>	<u>\$814,057</u>

As at 30 June 2016, in connection with the Company's leased aircraft arrangements (Note 13), the Company had placed deposits with the leasing agent as security in respect of its leasing obligations. The remainder of the security deposits represent various airport and ground handling deposits held by the airport handling agencies used by the Company to carry on its operations. These security deposits are available to the Company on the expiry the respective agreements.

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4. Security deposits & Prepayment and other assets (continued)

Prepayments and other assets include prepayments for maintenance reserve payments only to the extent that they were expected to be recovered based on planned maintenance events during the lease term. The Company makes monthly payments to a maintenance reserve to the lessor as part of its operating lease agreements. These payments are based on usage of various components of the aircraft, and the Company in accordance with the lease contracts, can be reimbursed from the maintenance reserve when certain qualifying maintenance events take place. As at 30 June 2016 two operating lease arrangements were in existence (2015: one) and no maintenance reserve payments were expected to be recovered based on planned maintenance events during the remaining lease term or as part of lessor imposed return conditions.

5. Property, plant and equipment

	<u>Aircraft & engines</u>	<u>Rotables</u>	<u>Land & Buildings</u>	<u>Office & communications equipment</u>	<u>Other assets</u>	<u>Total</u>
Cost						
Balance 1 July 2015	\$20,435,831	\$ 5,907,915	\$ 8,685,811	\$ 1,030,292	\$ 1,223,952	\$37,283,801
Additions	3,988,354	1,650,545	-	188,439	335,231	6,162,569
Disposals	(141,856)	-	-	-	-	(141,856)
Balance 30 June 2016	<u>\$24,282,329</u>	<u>\$ 7,558,460</u>	<u>\$ 8,685,811</u>	<u>\$ 1,218,731</u>	<u>\$ 1,559,183</u>	<u>\$43,304,514</u>
Depreciation						
Balance 1 July 2015	\$ 4,881,668	\$ 2,567,850	\$ 2,815,725	\$ 525,010	\$ 515,572	\$11,305,825
Charge for the year	2,030,622	492,189	136,686	173,966	183,312	3,016,775
Disposals	-	-	-	-	-	-
Balance 30 June 2016	<u>\$ 6,912,290</u>	<u>\$ 3,060,039</u>	<u>\$ 2,952,411</u>	<u>\$ 698,976</u>	<u>\$ 698,884</u>	<u>\$14,322,600</u>
At 30 June 2016	<u>\$17,370,039</u>	<u>\$ 4,498,421</u>	<u>\$ 5,733,400</u>	<u>\$ 519,755</u>	<u>\$ 860,299</u>	<u>\$28,981,914</u>
At 30 June 2015	<u>\$15,554,163</u>	<u>\$ 3,340,065</u>	<u>\$ 5,870,086</u>	<u>\$ 505,282</u>	<u>\$ 708,380</u>	<u>\$25,977,976</u>
	<u>Aircraft & engines</u>	<u>Rotables</u>	<u>Land & Buildings</u>	<u>Office & communications equipment</u>	<u>Other assets</u>	<u>Total</u>
Cost						
Balance 1 July 2014	\$18,636,886	\$ 4,704,680	\$ 8,679,801	\$ 891,417	\$ 862,686	\$33,775,470
Additions	1,798,945	1,203,235	6,010	138,875	361,266	3,508,331
Disposals	-	-	-	-	-	-
Balance 30 June 2015	<u>\$20,435,831</u>	<u>\$ 5,907,915</u>	<u>\$ 8,685,811</u>	<u>\$ 1,030,292</u>	<u>\$ 1,223,952</u>	<u>\$37,283,801</u>
Depreciation						
Balance 1 July 2014	\$ 2,525,161	\$ 2,142,333	\$ 2,679,036	\$ 395,581	\$ 380,284	\$ 8,122,395
Charge for the year	2,356,507	425,517	136,689	129,429	135,288	3,183,430
Disposals	-	-	-	-	-	-
Balance 30 June 2015	<u>\$ 4,881,668</u>	<u>\$ 2,567,850</u>	<u>\$ 2,815,725</u>	<u>\$ 525,010</u>	<u>\$ 515,572</u>	<u>\$11,305,825</u>
At 30 June 2015	<u>\$15,554,163</u>	<u>\$ 3,340,065</u>	<u>\$ 5,870,086</u>	<u>\$ 505,282</u>	<u>\$ 708,380</u>	<u>\$25,977,976</u>
At 30 June 2014	<u>\$16,111,725</u>	<u>\$ 2,562,347</u>	<u>\$ 6,000,765</u>	<u>\$ 495,836</u>	<u>\$ 482,402</u>	<u>\$25,653,075</u>

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5. Property, plant and equipment (continued)

The Company reviews its property, plant and equipment for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable or when impairment indicators are present. As at 30 June 2016 and 2015 there is no impairment recorded in property, plant and equipment.

6. Trade and other receivables

Trade and other receivables comprise:

	<u>2016</u>	<u>30 June</u> <u>2015</u>
Trade receivables	2,510,277	2,222,623
Other receivables	<u>5,665,393</u>	<u>2,314,646</u>
Total, before provision for impairment	8,175,670	4,537,269
Less: provision for impairment	(47,368)	(52,446)
Net receivables	<u>\$ 8,128,302</u>	<u>\$ 4,484,823</u>

Trade receivables relate to air cargo services sold to local customers and other government entities with payments generally due after 30 days of sale. At 30 June 2016 trade receivables of \$1,859,642 (2015: \$1,460,334) were due from related parties, being other Government entities. Other receivables include an amount of \$2,857,143 owed from the Government in respect of equity injections (Note 18) and amounts due from airline clearing houses and credit card companies in respect of ticket and unsettled credit card transactions, respectively.

The movement in the provision for impairment of receivables is as follows:

	<u>2016</u>	<u>30 June</u> <u>2015</u>
Balance, beginning of year	\$ 52,446	\$ 297,632
(Decrease) / Increase in provision for impairment	-	-
Debts written off	<u>(5,078)</u>	<u>(245,186)</u>
Balance, end of year	<u>\$ 47,368</u>	<u>\$ 52,446</u>

During the year ended 30 June 2016, the Company wrote off \$5,078 (2015: \$245,186) relating to amounts due from customers.

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6. Trade and other receivables (continued)

As of 30 June 2016, the aging analysis of receivables is as follows:

	<u>2016</u>	<u>30 June,</u> <u>2015</u>
Neither past due nor impaired	\$ 5,578,294	\$ 2,589,063
Total past due but not impaired	2,550,008	1,895,760
Impaired:		
31 – 365 days		
+365 days	<u>47,368</u>	<u>52,446</u>
Total impaired	\$ <u>47,368</u>	\$ <u>52,446</u>
Total receivables	\$ <u>8,175,670</u>	\$ <u>4,537,269</u>

As of 30 June 2016, receivables of \$2,550,008 (2015: \$1,895,760) were past due but not impaired. These relate to a number of independent customers from whom there is no recent history of default or to related party Government entities whose collectability is expected given the nature of the relationship between the Company, Shareholder and other Government entities. The ageing analysis of these receivables is as follows:

	<u>2016</u>	<u>2015</u>
31 – 365 days	539,535	644,677
+365 days	<u>2,010,473</u>	<u>1,251,083</u>
Total past due but not impaired	\$ <u>2,550,008</u>	\$ <u>1,895,760</u>

7. Accounts payable and accrued expenses

At year end, accounts payable and accrued expenses are comprised of the following:

	<u>2016</u>	<u>30 June,</u> <u>2015</u>
Trade accounts payable	\$ 29,687,293	\$ 30,367,417
Other accounts payable	7,848,836	7,788,979
Accruals	<u>1,648,454</u>	<u>2,755,544</u>
Total	\$ <u>39,184,583</u>	\$ <u>40,911,940</u>

At year end, the following balances were due to related parties:

	<u>2016</u>	<u>30 June,</u> <u>2015</u>
Trade accounts payable	\$25,921,540	\$ 29,887,843
Other accounts payable	2,646,313	2,701,977
Accruals	<u>738,554</u>	<u>734,558</u>
Total	\$ <u>29,306,407</u>	\$ <u>33,324,378</u>

CAYMAN AIRWAYS LIMITED
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7. Accounts payable and accrued expenses (continued)

At 30 June 2016 and 2015 the Company was in the process of working with Government in renegotiating the terms of repayment of a component of the above debt owed to various related parties including \$20 million (2015: \$21 million) to the Cayman Islands Airport Authority ("CIAA"). The CIAA charges the Company for airport landing and parking fees which are recognised in the Consolidated Statement of Comprehensive Income.

Amounts due to related parties represent balances due to entities under common control of the Company's shareholder. These include Ministries, Statutory Authorities and other companies where the Cayman Islands Government has controlling interest. At the year end the Company was in negotiations with the Shareholder on settlement of the debts. During the year ended 30 June 2016 the Government approved the write-off of \$Nil (2015: \$3,310,914) related to amounts due to one Statutory Authority. This liability has been derecognised and the amount of the write-off has been accounted for as an additional shareholder contribution (Notes 19).

Other accounts payable comprise primarily taxes and fees collected from passengers on ticket sales.

8. Loans payable

At year end, the Company held the following loans, analysed by contractual maturity in effect as of 30 June 2016 and 2015:

As at 30 June 2016:

	<u>Within 1 year</u>	<u>Between 2 and 5 years</u>	<u>After more than 5 years</u>	<u>Total</u>
Floating rate secured USD loans (i)	\$ 5,068,422	\$ 14,949,889	\$ 4,228,772	\$ 24,247,083
	<u>\$ 5,068,422</u>	<u>\$ 14,949,889</u>	<u>\$ 4,228,772</u>	<u>\$ 24,247,083</u>

As at 30 June 2015:

	<u>Within 1 year</u>	<u>Between 2 and 5 years</u>	<u>After more than 5 years</u>	<u>Total</u>
Floating rate secured USD loans (i)	5,037,523	18,882,873	5,345,353	29,265,749
	<u>\$ 5,037,523</u>	<u>\$ 18,882,873</u>	<u>\$ 5,345,353</u>	<u>\$ 29,265,749</u>

(i) The loans bear a floating rate of interest priced at one month Libor plus a percentage spread per annum. The loans are secured by way of guarantee from the Government (Note 2) and are repayable between 2016 and 2024.

During the year ended 30 June 2016, the Company incurred an interest expense of \$833,377 (2015: \$919,449).

Pursuant to the agreements with local banks, the Company must comply with certain covenants, namely ensuring that all scheduled repayments are current and the provision of audited financial statements and other financial data of both the Company and the Government (as guarantor). In the event of default, the local banks may, by written notice to the Company, declare all borrowings under the agreements to be immediately due and payable. During the years ending 30 June 2016 and 2015, the Company had failed to comply with a financial reporting covenant related to the provision of the Company's annual audited financial statements to the lenders, within 180 days of the financial year end. At 30 June 2016 and 2015 the local banks provided waivers of such covenants to the Company.

CAYMAN AIRWAYS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(Expressed in United States dollars)

8. Loans payable (continued)

Letters of credit

A local bank has issued a number of letters of credit on behalf of the Company in the amount of \$968,048 (2015: \$978,948). These are used as collateral for United States Customs bonds and credit account support. The letters of credit bear interest at a rate of 1% per annum.

9. Provisions

Major Maintenance Provision

In accordance with the Company's accounting policy a provision is made for major maintenance and overhauls on aircraft under certain operating leases over the lease terms because the Company may be contractually committed to either return the aircraft in a certain condition or to compensate the lessor based on the actual condition of the airframe, engines and limited life parts upon return. In order to fulfil such conditions of the lease, maintenance is required to be performed during the period of the lease and upon return of the aircraft to the lessor. In such circumstances the estimated maintenance costs and the costs associated with the restitution of major limited life parts, are accrued and charged to the Consolidated Statement of Comprehensive Income over the lease term.

At 30 June 2016 and 2015 all aircrafts held on an operating lease for which there were contractual commitments with respect to major maintenance either during the lease term or as part of the contractual return conditions did not require a provision. The Company made monthly supplemental rent payments in respect of the anticipated future major maintenance events and return conditions and these are expected to exceed or be equal to the future cost of such events. Therefore, no provision was made for major maintenance or overhauls in respect of these operating lease agreements and the expense was charged to the Consolidated Statement of Comprehensive Income over the lease term, as appropriate.

Frequent Flyer Provision:

	<u>2016</u>	<u>30 June,</u> <u>2015</u>
Current provision	\$ <u>2,840,000</u>	\$ <u>3,044,500</u>

Frequent flyer programme

The provision in respect of the frequent flyer programme is released when points are used or when they become non-redeemable. Points are redeemable for a maximum of two years in the event of non-activity in dormant accounts. The Company uses an estimated value of redeemed travel, based on historical average fares, to determine the value attributed on each mile. The provision is included as a liability on the Consolidated Statement of Financial Position.

10. Share capital

	<u>2016</u>	<u>30 June,</u> <u>2015</u>
Authorised:		
50,000,000 Ordinary shares of C\$1 each	C\$ <u>50,000,000</u>	C\$ <u>50,000,000</u>
Issued and fully paid:		
31,980,179 Ordinary shares of C\$1 each	\$ <u>38,376,215</u>	\$ <u>38,376,215</u>

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10. Share capital (continued)

During the year ended 30 June 2016, the Government, as part of its addressing of the Shareholder deficiency in Cayman Airways, contributed \$8,928,572 (2015: \$7,261,905) in equity injections (Note 18). Pursuant to these transactions, the Company intends, in the future, to issue 7,500,000 (2015: 6,100,000) ordinary shares of C\$1 each to the Government, corresponding to the capital injections in 2016.

During the year ended 30 June 2015 the Government (as further discussed in Notes 7 and 19) approved the write-off of \$3,310,914 (CIS 2,781,167) owed by the Company to a Statutory Authority. The write-off of the amount owed was treated as a capital transaction by the shareholder (Note 19) and accordingly has been recognised as additional capital contribution.

In January 2010, the Board of Directors of the Company resolved to increase the authorised share capital of the Company from 50,000,000 units of shares to 100,000,000. However, as of 30 June 2016 and 2015, the Government, as Shareholder, had not given effect to those resolutions as passed by the Board of Directors, nor had the formalities for the issuance of the outstanding shares to the Shareholder been fully executed. Consequently, as at 30 June 2016, an amount of \$73,565,746 (2015: \$64,637,174) is shown on the Consolidated Statement of Financial Position, which represents subscriptions for shares not yet issued.

11. Related party transactions and balances

As outlined in Note 1, the Company is wholly owned by the Government. The Company engages with other entities and bodies which are related to the Government in the ordinary course of business.

As outlined in Note 2, the Company has entered into various arrangements with Government or with Government support. As a result, it is probable that the terms obtained by the Company under these arrangements would likely be less favorable than without the Government, or indeed, whether the Company would have been able to avail of those facilities without the Government involvement in first instance.

The Government has undertaken to provide financial support to the Company as discussed in Note 2. Consequently, the consolidated financial statements have been prepared on the going concern basis and do not include any adjustments relating to the recoverability and classification of recorded asset amounts or to amounts and classification of liabilities that may be necessary should the Company be unable to continue as a going concern.

The key management of the airline is comprised of 10 positions (2015: 10 positions), which are the President and Chief Executive Officer (along with 1 support staff function), one Executive Vice President/Chief Financial Officer, three Vice Presidents, three Director level positions and the General Manager of CAL Express. Total remuneration earned by key management during the year ended 30 June 2016 and 2015 is shown below. Total remuneration for the period includes medical and pension contribution, acting allowances and severance pay. There were no salary advances or loans issued to key management during the period (2015: \$Nil).

	<u>2016</u>	<u>2015</u>
Salaries and other short term employee benefits	\$1,725,466	\$1,536,328

All of the members of the Board of Directors are voluntary and do not receive any remuneration for services rendered. Directors are entitled to utilise certain flight benefits. Furthermore, current and retired staff and their family members receive travel benefits with the Company. As these benefits are generally dependent upon space available and not guaranteed, and as the incremental cost of providing the benefit is immaterial, the Company does not record the perceived value nor make an adjustment for staff costs.

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11. Related party transactions and balances (continued)

During the year ended 30 June 2016, the Company made a staff gratuitous payment of \$512,029 (2015: \$Nil) in accordance with a Government decision to provide a one-time gratuitous payment of 2.2% of annual salary to be paid to public servants.

Due to the nature of the Company's purpose and its ownership by the Government, related party transactions occur throughout its entire operations. Other significant related party transactions and balances are disclosed throughout these financial statements (Notes 6, 7, 10 and 14). Amounts due to and from related parties are unsecured and non-interest bearing.

12. Other Staff Costs

Significant components of other staff costs comprise health insurance, pensions and travel expenses. For employees based in the Cayman Islands, the Company and its employees make contributions to a defined contribution pension plan regulated in the Cayman Islands. The employees contributed 5% of their annual salaries to the plan during the year, as required by law, and the Company matched such contributions. Employees based in the United States of America are eligible to participate in a 401K defined contribution pension plan. Contributions are matched by the Company, to a maximum of 3% of the employee's basic salary. During the year ended 30 June 2016, the Company made \$997,865 (2015: \$930,612) in pension contributions which is included in other staff costs in the Consolidated Statement of Comprehensive Income.

13. Lease commitments

(a) Operating leases

The Company has entered into a number of operating lease agreements for its operations, including leases for rentals of aircraft and premises. During the year ended 30 June 2016, the Company made payments under these operating leases of \$4,312,598 (2015: \$3,884,714) which are included within the aircraft rentals and other operating expenses.

Year ended 30 June 2016:

	<u>Aircraft & Engines</u>	<u>Premises</u>	<u>Total</u>
Operating lease payments	\$ <u>3,814,380</u>	\$ <u>498,218</u>	\$ <u>4,312,598</u>

Year ended 30 June 2015:

	<u>Aircraft & Engines</u>	<u>Premises</u>	<u>Total</u>
Operating lease payments	\$ <u>3,315,357</u>	\$ <u>569,357</u>	\$ <u>3,884,714</u>

Minimum lease commitments outstanding at the end of the year pursuant to all lease agreements entered in are as follows as at 30 June 2016:

	<u>Aircraft & Engines</u>	<u>Premises</u>	<u>Total</u>
2017	\$ 2,376,175	\$ 87,868	\$ 2,464,043
2018 to 2021	17,094,420	10,656	17,105,076
2022 and beyond	<u>3,791,100</u>	<u>-</u>	<u>3,791,100</u>
Total	\$ <u>23,261,695</u>	\$ <u>98,524</u>	\$ <u>23,360,219</u>

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13. Lease commitments (continued)

As at 30 June 2015:

	<u>Aircraft & Engines</u>	<u>Premises</u>	<u>Total</u>
2016	\$ 1,137,555	\$ 102,190	\$ 1,239,745
2017 to 2020	360,000	62,926	422,926
2021 and beyond	-	-	-
Total	<u>\$ 1,497,555</u>	<u>\$ 165,116</u>	<u>\$ 1,662,671</u>

The Company has entered into lease agreements in connection with the leasing of aircrafts. Pursuant to the lease agreements, the Company advanced a number of refundable security deposits to a total value of \$435,000 (2015: \$320,000) for the term of the lease. These deposits (Note 4) are refundable at the end of the lease term. Lease payments are due monthly in advance, and all balances overdue are subject to an interest charges. There are no balances overdue as at 30 June 2016 (2015: \$Nil).

Effective June 30, 2016 the Company entered into various new lease arrangements in relation to a Boeing 737-800 aircraft and multiple Boeing 737-8Max aircrafts. The aircrafts are expected to be delivered and become operational between November 2016 and September 2020, respectively. Certain leases have options for extension.

Under the terms of the lease agreements, the Government has issued guarantees of \$360,000 (2015: \$2,240,000) to the lessor in respect of lease obligations relating to aircraft.

(b) Finance leases

During the year ended 30 June 2015 the Company repaid all of its finance leases obligations.

14. Government output purchases

The Company's operations are broken into several distinct categories under an "airlift framework". This framework features significantly in the Company's operational planning and funding models and is defined as follows:

Framework Category	Definition
Core	Routes/Flights/Operations that CAL dominates and knows the market well
Strategic Domestic	Routes/Flights/Operations that provide good economic return or at least break-even
Strategic Tourism	Domestic Routes/Flights that are purchased by, and operated on behalf of, the Government
	International Routes/Flights that have national tourism importance which are purchased by, and operated on behalf of, the Government
Surplus	Assumes prior 3 categories are being adequately serviced (without displacement and not affecting required redundancy to maintain reliability of service). Includes operations which must provide good economic return.

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14. Government output purchases (continued)

Strategic Domestic and Strategic Tourism are operations which are considered, by the Government, critical for the Cayman Islands, but do not provide sufficient economic justification themselves for an airline to operate. Accordingly, the Government purchases these operations from the Company (these purchases are referred to as "Output Payments"). During periods of economic slow-down, the Government may also purchase certain of the Core operations from the Company as well. During the year ended 30 June 2016, the Government paid Output Payments to the Company totalling \$20,602,143 (2015: \$21,197,381) for it to provide these services as part of a defined Purchase Agreement. The Purchase Agreement is a formal contract which is agreed and executed between the Company and the Government prior to the start of any subsequent fiscal year as part of the Government Budget process. The Purchase Agreement requires the Company to provide defined services within a range relating to both a quantity of flights and number of passengers. For both 2016 and 2015, the Company provided the defined services within the specified ranges. Additionally, the Company is required to file quarterly reports with the Government indicating its compliance with these provision requirements. Output Payments are paid quarterly in four equal instalments.

15. Financial instruments risk

The Company is exposed to a variety of financial risks: credit risk, liquidity risk, market risk (interest rate risk) and commodity price risk. The Company's overall risk management program focuses on the unpredictability of the financial markets and seeks to minimise the potential adverse effects on the Company's financial position and performance.

Risk management is carried out by the Senior Finance Management team with guidance from the Financial Affairs committee of the Board of Directors. The senior management team identifies and evaluates financial risks in close co-operation with the Company's various operating units.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. To mitigate this risk, the Company has adopted a policy of dealing only with creditworthy counterparties. Financial assets which potentially expose the Company to credit risk comprise cash and cash equivalents, accounts receivable and security deposits.

The Company seeks to mitigate its credit risk on cash at bank by placing its cash and cash equivalents with reputable financial institutions. At 30 June 2016 and 2015, substantially all of the operating cash at bank is placed with three financial institutions, being RBC Royal Bank (Cayman) Limited, Butterfield Bank (Cayman) Limited and Bank of America N.A. (located in the United States), which in the opinion of management are stable financial institutions. Management does not anticipate any material losses as a result of this concentration.

Credit risk arising from default by customers represents the most significant source of risk to the Company.

For trade customers, the Company performs adequate due diligence (including, but not limited to, independent credit ratings, assessment of credit quality, taking into account its financial position, past experience and other factors) on the stability of the customer and their repayment capabilities prior to extending credit. On an on-going basis, management regularly monitor the level of debts outstanding from customers to ensure that the risk of loss arising from default is minimised. All customers are generally granted contractual credit terms of 30 days; however, in practice, the level of credit days by customers is significantly greater. The majority of the customers making up the trade customer balance are various government agencies 74% (2015: 58%). Accordingly, delays in payment are expected, but no significant risk of non-payment is expected. However, to mitigate the risk arising from default, management maintains regular contact with the customers to ensure that repayment is timely, and to identify early any potential indicators of default.

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15. Financial instruments risk (continued)

Credit risk (continued)

Note 6 presents' further details on the status of the trade receivables at year end, including a summary of the credit status of the trade receivables.

The carrying value of these financial assets represents the maximum exposure to credit risk. No collateral is required from the Company's debtors.

Interest rate risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

As discussed in Notes 8, the Company has long term debt which is priced at a floating rate of interest, which is reset monthly as market rate changes. The Company is exposed to cash flow interest rate risk should market rates change. Management does not consider the Company to be exposed to interest rate risk on cash at bank, since this cash is held on call.

The table below illustrates the sensitivity of the Company's reported net income (and shareholders' deficit) to reasonably possible changes in interest rates for the overdraft and long term debt:

	<u>2016</u>	<u>2015</u>
+ 1.00%	(242,471)	(292,657)
- 1.00%	242,471	292,657

Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its payment obligations associated with its financial liabilities when they fall due.

The Company is reliant significantly on the on-going support from the Government in order to ensure its continued operations and to meets its obligations as they fall due (Note 2).

Prudent liquidity risk management implies maintaining sufficient cash at bank and funding to sustain operations of the Company. The Company maintains liquidity for its operations and payment of its debt through retaining sufficient available funds in the form of cash at bank, and seeking additional financing as required from Government as and when the need arises.

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15. Financial instruments risk (continued)

Liquidity risk (continued)

The table below presents the undiscounted cash flows payable by the Company under financial instruments by outstanding contractual maturities at the reporting dates:

As at 30 June 2016:

	<u>< 1 year</u>	<u>>1 < 5 Years</u>	<u>5 years +</u>	<u>Total</u>
Cash outflows				
Accounts payable and accrued exp.	39,184,583	-	-	39,184,583
Loans payable	5,068,422	14,949,889	4,228,772	24,247,083
Interest payments on loans	700,964	1,455,133	299,359	2,455,456
Operating lease payments	<u>2,464,043</u>	<u>17,105,076</u>	<u>3,791,100</u>	<u>23,360,219</u>
Total cash outflows	<u>\$ 47,418,012</u>	<u>\$ 33,510,098</u>	<u>\$ 8,319,231</u>	<u>\$ 89,247,341</u>

As at 30 June 2015:

	<u>< 1 year</u>	<u>>1 < 5 Years</u>	<u>5 years +</u>	<u>Total</u>
Cash outflows				
Accounts payable and accrued exp.	40,911,940	-	-	40,911,940
Loans payable	5,037,522	18,882,874	5,345,353	29,265,749
Interest payments on loans	<u>799,129</u>	<u>2,033,249</u>	<u>278,263</u>	<u>3,110,641</u>
Total cash outflows	<u>\$ 46,748,591</u>	<u>\$ 20,916,123</u>	<u>\$ 5,623,616</u>	<u>\$ 73,288,330</u>

Commodity price risk

The Company's fuel requirements expose the Company to the market volatility of jet fuel prices. The Company is subject to jet fuel price risk resulting from its operating activities. The volatility of jet fuel prices has been significant in recent years and can have a significant effect on the profitability of operations. The Company does not engage in any hedging activities with respect to mitigating the risk of fluctuations in jet fuel prices. The Company purchases jet fuel at the daily spot rate as the demand exists, consequently, the Company is exposed to significant risk in the event of significant fluctuations in the price of jet fuel.

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16. Financial instruments - fair values

Fair values approximate amounts at which financial assets and liabilities could be exchanged between willing parties and are determined using judgment and after consideration of uncertainties. Therefore, the aggregate fair value amounts should not be interpreted as being realisable in an immediate settlement of the instruments.

The main assumptions and valuation techniques used at arriving at fair values are outlined below.

Financial instruments carried at other than fair value

Cash and cash equivalents, trade and other receivables (net of provisions), security deposits, prepayments and other assets, accounts payable and accrued expenses, loans payable and unearned transportation revenue approximate their fair value due to the short-term maturities of these assets and liabilities. Per the fair value hierarchy of IFRS 13, cash is classified as level 1, and the remaining financial assets and liabilities are classified as level 2 (Note 3).

17. Contingent liabilities

The Company is routinely engaged in litigation arising in the ordinary course of its business. Management does not believe that any such litigation will individually or in aggregate have a material adverse effect on the financial condition of the Company. It is management's policy to rigorously assert its position in such cases. Management believes that the possible liabilities arising from unsuccessful litigation are not accurately determinable. However, such liabilities would not be expected to materially adversely affect the Company's results of operations or financial position.

18. Capital management

The Company's objectives when managing its working capital, is to safeguard the Company's ability to continue as a going concern, through the on-going support from the Government (Note 2), so that it can continue to provide the specified activity for which the Company was established (Note 1).

The Financial Secretary of the Government has advised the Company, that pursuant to a Cabinet meeting of the Government on 20 April 2010, the Government has resolved to formally address the shareholder's deficiency by committing to make 120 monthly equity injections of \$505,952 (CIS\$425,000) (or an amount as per the principal debt service agreement(s) then in effect) commencing 1 July 2010 until 30 June 2020. During the year ended 30 June 2016, in addition to the monthly payments of \$505,952 (CIS\$425,000) the Government has paid an additional \$2,857,143 (CIS\$2,400,000) (2015: \$1,190,480 (CIS\$1,000,000)) to the Company totalling \$8,928,572 (2015: \$7,261,904) in equity injections for the year. The additional amount of \$2,857,143 for 2016 remains due from Government at June 30, 2016 (Note 6).

The Company is not subject to any externally imposed working capital requirements by third party lenders or the Cayman Islands Government.

19. Certain significant estimates

The Company believes that its critical accounting policies, which are those that require management's most difficult, subjective and complex judgments, are as described below. These critical accounting policies, the judgments and other uncertainties affecting application of these policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered in reviewing the consolidated financial statements.

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19. Certain significant estimates (continued)

Property, plant and equipment

In accounting for property, plant and equipment, the Company must make estimates about the useful lives of the assets. Additionally, property, plant and equipment are reviewed annually at each reporting date for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable or when impairment indications are present. Assets whose carrying values exceed their recoverable amount are written down to the recoverable amount, being the higher of fair value less costs of disposal or value in use (on a discounted cash flow basis).

In estimating the useful lives and recoverable amount of its property, plant and equipment, the Company has primarily relied on its own industry experience, and other available marketplace information. Subsequent revisions to these estimates could be caused by a change in the physical condition, obsolescence, changes in usage patterns and changes in market demand. Additionally, changes in recoverable amounts used in impairment analyses, could be caused by changes in cash generating abilities or market value of the aircraft airframe and engines, rotables, land and buildings, and other assets. The Company evaluates its estimates and assumptions in each reporting period, and, when warranted, adjusts these assumptions when first known of or reasonably estimable; such adjustments can be significant.

Heavy maintenance

An element of the cost of an acquired aircraft is attributed, on acquisition, to its service potential, reflecting the maintenance condition of the engines and airframe. Additionally, under operating leases, when the Company has a commitment to perform aircraft maintenance, a provision is recognised during the lease term for this obligation (Note 9). Both of these elements of accounting policies involve the use of estimates in determining the quantum of both the initial maintenance asset and/or the amount of provisions to be recorded and the respective periods over which such amounts are charged to income. In making such estimates, the Company has primarily relied on its own industry experience and industry regulations; however, these estimates can be subject to revision, depending on a number of factors, such as the timing of the planned maintenance, the ultimate utilisation of the aircraft, changes to government regulations and increases and decreases in estimated costs. The Company evaluates its estimates and assumptions in each reporting period and, when warranted, adjusts its assumptions.

Frequent flyer provision

As outlined in Note 9, the frequent flyer provision is based on expected redemption of outstanding miles. The expected redemption level is based on the Company's actual history of redemption for the program since inception (over 10 years). The expected redemption level is not expected to fluctuate significantly from the actual redemption.

Government output purchases

The Company accounts for the Output Payments as a government grant using the income approach in accordance with IAS 20. The arrangement disclosed in Note 14 imposes compliance with certain conditions and/ or obligations on the Company and as such the Company recognises income in the Consolidated Statement of Comprehensive Income over the period in which it recognises costs that they are intended to compensate. Management has exercised judgment in determining that the Output Payments received are recognised in the Consolidated Statement of Comprehensive Income as income and are not capital in nature.

Government debts write-off

Management accounts for the write-off of debts due to Government and/ or its Statutory Authorities as a capital transaction on the basis that the write-off was approved by Government as a financing device, and consequently the write-off does not impose compliance with certain conditions or obligations to the Company. Management exercised judgment in concluding that the write-off of \$Nil (2015: \$3,310,914) due to a Statutory Authority (Note 7), which was approved by the Government, is recognised in the Statement of Changes in Shareholders Equity as a capital contribution.

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20. Taxation

Under the current laws of the Cayman Islands, there are no income, sales or other Cayman Islands taxes payable by the Company. Management believes that the Company currently conducts its affairs so as not to be liable for income taxation in any other jurisdiction. The Company does incur taxes, Government fees, and other regulatory fees on airline tickets and air freight, but these are charged directly to the customer and in turn remitted to the appropriate regulatory authorities/bodies.

21. Subsequent Events

In October 2016, the Company entered into a lease agreement for the provision of a Saab 340B aircraft to provide service between Grand Cayman and the sister island of Cayman Brac. The Saab 340B is expected to operate alongside the existing Saab 340B+ which is currently in effect on this route.

In December 2016, the Company received a Boeing 737-800 aircraft whose lease had been entered into on June 30, 2016 (Note 13). The Boeing 737-800 is expected to operate alongside the existing Boeing 737-300 aircrafts already in use on the Company's international flight schedule.

The Company has no other subsequent event through the date of sign off of these financial statements.